奧威控股有限公司
AOWEI HOLDING LIMITED

(Incorporated in the British Virgin Islands and continued in the Cayman Islands with limited liability)
(formerly known as Hengshi Mining Investments Limited 恒實礦業投資有限公司)
Stock Code: 1370

ANNUAL REPORT 2017

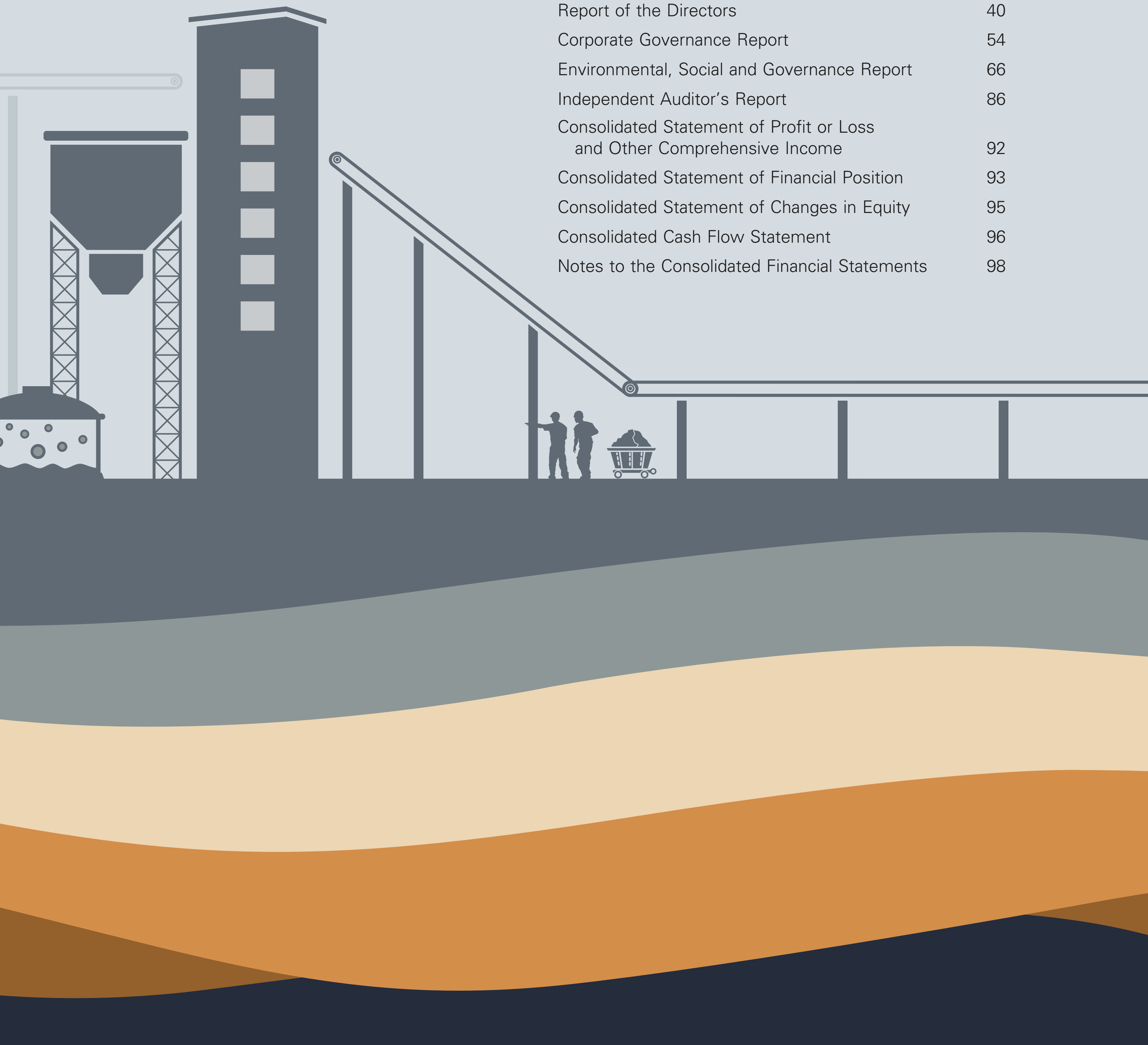
CORE VALUE

CREATE Wealth for the Society

CREATE Value for Our Shareholders

CREATE Career for Our Employees

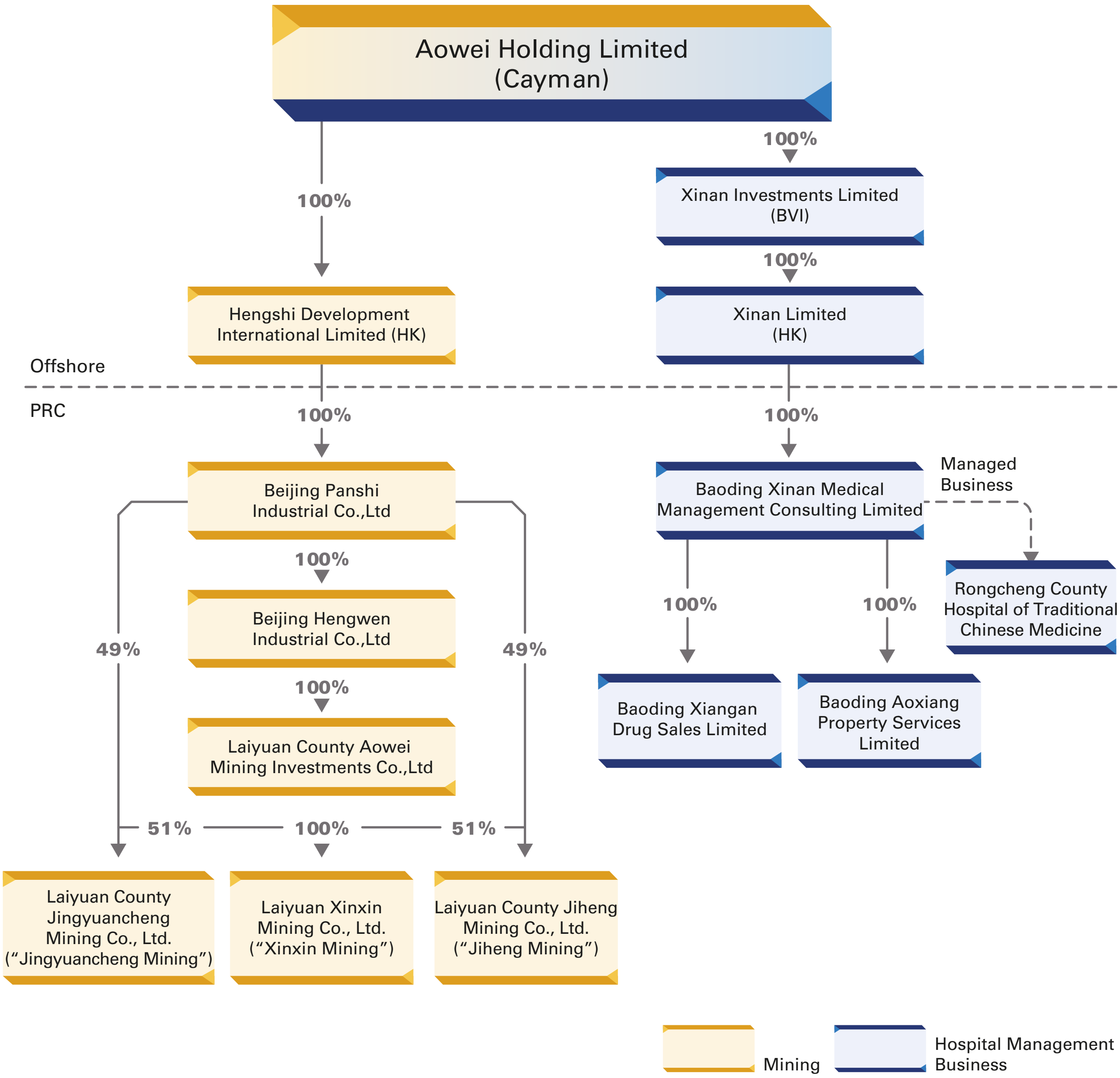
CONTENTS



CORPORATE INFORMATION

Aowei Holding Limited (formerly known as Hengshi Mining Investments Limited) (the "Company") was initially incorporated in the British Virgin Islands under the laws of the British Virgin Islands on 14 January 2011 and redomiciled to the Cayman Islands on 23 May 2013. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 November 2013 (stock code: 1370). On 28 November 2017, the name of the Company was changed from Hengshi Mining Investments Limited to Aowei Holding Limited.

The Company and its subsidiaries (collectively, the "Group" or "we" or "our") are principally engaged in two major businesses, namely (i) the exploration, mining, processing and trading of iron ore products and major products including iron ores, preliminary concentrates and iron ore concentrates, and (ii) the provision of hospital management services. The Group owns and operates four mines in Hebei Province, which has the largest steel production and iron ore consumption volumes in the People's Republic of China (the "PRC" or "China").



COMPANY'S STATUTORY CHINESE NAME

奧威控股有限公司

COMPANY'S STATUTORY ENGLISH NAME

Aowei Holding Limited

STOCK CODE

1370

REGISTERED OFFICE

P.O. Box 309
Ugland House Grand Cayman KY1-1104
Cayman Islands

HEADQUARTERS IN THE PRC

No. 91 Guangping Avenue
Laiyuan County
Baoding City 074300
Hebei Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

AUTHORIZED REPRESENTATIVES

Mr. Li Yanjun
Ms. Kwong Yin Ping, Yvonne

JOINT COMPANY SECRETARIES

Mr. Meng Ziheng
Ms. Kwong Yin Ping, Yvonne

AUDITOR

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

HONG KONG LEGAL ADVISOR

Loong & Yeung, Solicitors
Room 1603, 16/F
China Building
29 Queen's Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR IN THE CAYMAN ISLANDS

Maples Fund Services (Cayman) Limited
P.O. Box 1093
Boundary Hall, Cricket Square
Grand Cayman
KY1-1102
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

INVESTOR INQUIRES

Website: www.aoweiholding.com
E-Mail: ir@aow.com.cn

DIRECTORS

Executive Directors

Mr. Li Yanjun *(Chairman)*
Mr. Leung Hongying Li Ziwei
(also known as Li Ziwei) *(Vice Chairman)*
Mr. Huang Kai *(CEO)*
Mr. Sun Jianhua *(CFO)*
Mr. Li Jinsheng
Mr. Tu Quanping

Independent Non-executive Directors

Mr. Ge Xinjian
Mr. Meng Likun
Mr. Kong Chi Mo

AUDIT COMMITTEE

Mr. Ge Xinjian *(Chairman)*
Mr. Meng Likun
Mr. Kong Chi Mo

REMUNERATION COMMITTEE

Mr. Meng Likun *(Chairman)*
Mr. Leung Hongying Li Ziwei
(also known as Li Ziwei)
Mr. Ge Xinjian

NOMINATION COMMITTEE

Mr. Li Yanjun *(Chairman)*
Mr. Meng Likun
Mr. Kong Chi Mo

FIVE-YEAR FINANCIAL SUMMARY

SUMMARY DATA OF CONDENSED CONSOLIDATED INCOME STATEMENTS

	For the year ended 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Revenue	**869,122**	757,137	753,663	1,108,143	1,286,078
Cost of sales	**(594,757)**	(488,291)	(487,343)	(553,055)	(575,255)
Gross Profit	**274,365**	268,846	266,320	555,088	710,823
Distribution costs	**(10,731)**	(13,144)	(19,989)	(16,575)	(4,739)
Administrative expenses	**(74,056)**	(97,240)	(115,183)	(142,313)	(107,519)
Impairment losses	**(449,055)**	–	(393,637)	–	–
(Loss)/profit from operations	**(259,477)**	158,462	(262,489)	396,200	598,565
Finance income	**3,871**	4,065	3,466	10,594	280
Finance costs	**(45,574)**	(43,577)	(27,248)	(40,026)	(26,574)
Net finance costs	**(41,703)**	(39,512)	(23,782)	(29,432)	(26,294)
(Loss)/profit before taxation	**(301,180)**	118,950	(286,271)	366,768	572,271
Income tax	**(55,828)**	(33,284)	51,190	(96,206)	(146,659)
(Loss)/profit for the year	**(357,088)**	85,666	(235,081)	270,562	425,612
Attributable to:					
Equity shareholders of the Company	**(357,088)**	85,666	(235,081)	263,000	397,513
Non-controlling interests	**–**	–	–	7,562	28,099
Basic and diluted (loss)/earnings per share	**(0.22)**	0.05	(0.16)	0.17	0.34

SUMMARY DATA OF CONDENSED CONSOLIDATED BALANCE SHEETS

	As at 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Assets and liabilities					
Non-current assets	**1,483,069**	1,977,855	1,680,776	1,904,946	1,241,119
Current assets	**759,749**	622,460	384,067	457,050	1,112,446
Non-current liabilities	**(259,119)**	(299,403)	(278,971)	(331,240)	(531,138)
Current liabilities	**(642,511)**	(569,625)	(351,868)	(373,495)	(309,654)
Total equity	**1,377,188**	1,731,287	1,434,004	1,657,261	1,512,773
Non-controlling interests	**–**	–	–	–	53,694
Equity attributable to equity shareholders of the Company	**1,377,188**	1,731,287	1,434,004	1,657,261	1,459,079

CHAIRMAN'S STATEMENT

The year of 2017 was marked by the continuous improvement in the market environment and the recovery of upstream industry thanks to the continuous structural reform on supply side of the Steel Sector by the Chinese government. While maintaining stable operation of the iron ore business, the Group also kept a close eye on the development of Xiong'an New District, in expectation of stable and diversified development opportunities in the district.

Dear shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Aowei Holding Limited (the "**Company**"), I hereby present the report of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017 (the "**Year**" or the "**Reporting Period**") and extend our gratitude to the shareholders of the Company (the "**Shareholders**").

ANNUAL REVIEW

During the Year, global economy maintained its momentum of recovery. Meanwhile, economy in the People's Republic of China (the "**PRC**") remained stable and sound and was better than expected in 2017, with GDP reaching RMB82.7 trillion, representing a year-on-year growth of 6.9%. However, as growth model of the Chinese economy is shifting from export-oriented to consumer-oriented and from high-speed to high-quality, steel industry is still suffering from the severe problem in terms of eliminating overcapacity featuring with low efficiency, low quality and pollution.

Meanwhile, Chinese government continued to promulgate more stringent environment protection policies in 2017. We believe that the iron ore business in China will experience changes and new development following the implementation of the stricter environment protection policies and measures, which is likely to become the new direction of the iron ore business development in the future.

Opportunity and challenge are two sides of the same coin. In 2017, we held our ground and overcame difficulties in a business environment full of uncertainties. In 2017, the Group recorded a revenue of RMB869.1 million, representing an increase of 14.8% compared with the corresponding period last year, and a gross profit of RMB274.4 million representing an increase of 2.1% compared with the corresponding period last year. However, affected by the continuous sluggish of the iron ore industry in the past years and the stricter atmosphere and environment protection policies in Beijing-Tianjin-Hebei region, the integration of iron ore business of the Group was significantly affected. The two mining right assets acquired by Jiheng Mining in 2014 were impaired this year due to aforesaid factors. Impairment was provided in respect of Xinxin Mining since it ceased operation for a long term and didn't realize the best utilization rate of production facilities. The medical treatment business acquired during 2016 hasn't been smoothly carried out yet, due to construction and renovation projects of the entrusted hospital affected by the unclear planning of Xiong'an New District. The Group also made impairment on goodwill assets from above acquisition.

We endeavored to search for suitable quality assets to expedite the diversification of the Group in 2017. On 28 April 2017, the Group entered into a memorandum of understanding with the shareholder of a pharmaceutical logistics enterprise ("Target Company"), planning to acquire all the equity interest of the Target Company upon completion of restructuring. However, the Group deemed that it was not mature to make above acquisition according to due diligence investigation, and after receipt of prepayments, the Group will continue to seek for other acquisition targets in the medical treatment field to promote the business transformation of the Company.

FUTURE OUTLOOK

Looking forward to 2018, the Group is of the view that the Chinese steel and mining industry is still facing huge challenges. As an important field in resolving overcapacity and implementing environment protection policies, it is expected that the Chinese government will continue to promulgate a series of policies and measures to ensure the steel enterprises' survival of the fittest, and constantly improve the market environment of the mining industry in 2018, which will influence profoundly the future of the steel enterprises.

In 2018, the Group will continue to improve the level of meticulous management of all the mines, enhance its core competitiveness in the mining market with effective cost control and proactive sales and collection policies, and further consider the condition of suspended companies to cut maintenance cost and concentrate resources on future development. Meanwhile, it will leverage on the construction of the Beijing-Tianjin-Hebei integration and take the advantages of the platform to focus on the development trend of Xiong'an New District, in order to obtain stable and diversified development opportunities in Xiong'an New District.

ACKNOWLEDGEMENT

Last but not least, on behalf of the Board, I hereby wish to express my heartfelt gratitude to all Shareholders, customers and partners for their unfailing support, and pay my respect to all employees for their hard work and dedication to the Group! Looking to the future, we will work hard to achieve sustainable and stable development with stakeholders, and create greater value for shareholders.

Li Yanjun
Chairman of the Board

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

MINING SERVICE

MARKET REVIEW

During the year, global economy maintained its momentum of recovery. Meanwhile, economy in the People's Republic of China (the "PRC") remained stable and sound and was better than expected in 2017, with GDP reaching RMB82.7 trillion, representing a year-on-year growth of 6.9%. However, as growth of the Chinese economy is shifting from export-oriented to consumer-oriented and from high-speed to high-quality, steel industry is still suffering from the severe problem in terms of eliminating overcapacity featuring with low efficiency, low quality and pollution.

Specifically, the State Council of the PRC (the "State Council") has regarded "reducing overcapacity in industrial production" as one of the top priorities for the restructuring of the steel industry within the 13th Five-Year Plan of the PRC. The supply-side structural reform has been in place for more than two years since it was introduced at the Central Economic Work Conference in December 2015 and the problem of overcapacity in the steel industry is required to be addressed by all means in compliance with the policy. To maintain sustainable development of the industry, the State Council promulgated the Opinions on the Steel Industry to Resolve Overcapacity and Relief (《關於鋼鐵行業化解過剩產能實現脱困發展的意見》) in early 2016, with an aim to reduce the annual production capacity of crude steel by 100 million tons to 150 million tons by 2020 and to encourage mergers in the industry.

According to a document issued by the Ministry of Industry and Information Technology in early 2018, the target set out in the government work report of reducing overcapacity by 50 million tons were completed and exceeded in 2017, and the 140 million tons of "ground steel" production capacity, which have hampered the development of the steel industry for years, were completely eliminated. According to statistics released by the National Bureau of Statistics, the "ground steel" production capacity that had not been incorporated into the statistics before was replaced by compliant steel companies thanks to the ban of "ground steel" implemented nationwide in the first half of 2017. As a result, output of crude steel in the PRC reached 832 million tons in 2017, representing an increase of approximately 5.7% over the 808 million tons in 2016. The output of cast iron was 711 million tons in 2017, representing a year-on-year increase of approximately 1.8%.

According to the data published by the General Administration of Customs, 1,075 million tons of iron ore and concentrates in total were imported into the PRC in 2017, representing an increase of approximately 5% year-on-year. 13.3 million tons of steel were imported, representing a year-on-year increase of approximately 0.6%. In 2017, the average price of domestic iron ore concentrate was RMB595.0 per ton, representing a year-on-year increase of RMB84.9 per ton (or approximately 16.6%). The average price of imported fine ore was US$69.9 per ton, representing an increase of US$12.2 per ton (or approximately 21.1%). It is estimated that 88.5% of iron ore in the PRC was imported as at the end of 2017, being slightly higher than 87.4% at the end of 2016.

The growth rate of imported iron ore was affected by both demand and supply sides. At the demand side, the demand of steel companies for iron ore increased further due to recovery of the overall steel industry in 2017. At the supply side, development of domestic mines was influenced and constrained by environmental protection and safety policies, which resulted in the reliance on imported iron ore to satisfy the demands. It is expected that the amount of imported iron ore in the PRC will further increase in 2018. In addition, the demand of domestic steel companies for medium and high graded ore grows gradually due to increasing profitability. The iron ore and concentrates imported into the PRC in 2017 were mainly high graded ore from Australia and Brazil. The material imbalance between supply and demand pushed up the average price of imported ore.

Although the overall iron ore industry picked up thanks to the abovementioned factors, which in turn drove the continuous improvement of the Group's financial performance during the year, the Group recorded losses in 2017 due to asset impairment and other factors.

MAJOR BUSINESS RISKS

To improve the efficiency of mining industry and to cope with the non-compliance in the operation of small mines, the Central Government of China and regional governments have promulgated a number of policies and guidelines since 2009, promoting the integration of small-scale iron ore mines within the same mining area. According to the Approval of the Creation Plan for Mining Rights (Authorized by the Provincial Department) in Baoding (**Ji Guo Tu Zi Han [2014] No.421**) (冀國土資函[2014]421號文件《關於保定市採礦權(省廳發證權限)設置方案的批覆》) granted by Hebei Provincial Department of Land and Resources on 24 June 2014, integration of the five mining rights of Yaobeigou Iron Ore Mine (close to Jiheng Mining) in Zhijiazhuang, Laiyuan County, Heibei Province was approved.

Jiheng Mining, a wholly-owned subsidiary of the Company, entered into Mining Right Acquisition Agreements with Laiyuan County Hebei Province Yucheng Center Primary School Processing Plant (河北省淶源縣育城中心小學鐵選廠) ("Yucheng Processing Plant") and Laiyuan Wanxing Industry Limited (淶源縣萬興實業有限公司) ("Wanxing Industry") on 19 August 2014 and 18 December 2014 respectively. For details of the above transaction, please refer to announcement dated 19 August 2014 and the 2014 annual report of the Company. However, as the price of iron ore continued to decline and it was difficult to reach agreements with potential sellers due to the selling price, the Group did not reach other purchase agreements regarding integration of the other three mining rights in the region in accordance with the approval after completion of the acquisition of the above two mining rights. The above-mentioned integration work is suspended. The mining licenses of Yaobeigou Iron Ore Mine acquired from the Yucheng Processing Plant and Wanxing Industry expired on 8 June 2016 and 14 December 2015, respectively. They were not renewed due to the above government policies and requirements.

Uncertainties in the above integration work increased due to strict environmental protection policies in place since 2017. The "Ad-hoc Action Plan for Pollution Remediation of Open-pit Mines in Hebei Province" (**Ji Qi Ling Ban [2016] No. 24**)(《河北省露天礦山污染深度整治專項行動方案》(冀氣領辦[2016]24號)) clearly sets out that: the development and reform departments shall suspend the approval and registration of new construction projects for open-pit mines; the environmental protection departments shall suspend the approval of environmental impact assessment report for new open-pit mine projects, and the departments of land and resources shall suspend the approval of mining rights for new open-pit mines.

To confirm whether the aforementioned integration work can be resumed, the Group communicated with the local department of land and resources in July 2017 and commissioned Hebei Liangcheng Law Firm (河北涼城律師事務所) to conduct legal review on the above two mining rights acquisitions. The local department of land and resources pointed out that the **Ji Guo Tu Zi Han [2014] No.421** document issued by the Provincial Department of Land and Resources of Hebei Province in 2014 remained valid and it was not required to discontinue the operation in the above-mentioned mining areas acquired.

Considering the continuously tightened atmosphere and environment protection policies in Hebei, especially Beijing-Tianjin-Hebei region, Baoding Municipal Land and Resources Bureau issued **BGTZZ [2018] No.51 File** on 30 January 2018, pointing out that various approval procedures for entry into centralized exploration area by means of integration, adjustment or change of mine scope shall be suspended (unless integration proposals have been replied by the Municipal Government) according to the Opinions on Reforming and Improving Mineral Resource Management System and Strengthening Comprehensive Treatment of Mining Environment (**Ji [2018] No. 3**) issued by the Provincial Party Committee and Provincial Government. The Group considered that there were indications of impairments as for the aforesaid mining rights and has reviewed its recoverable amount, considering great changes in above policies and the development direction of relevant business.

As stated in previous annual reports of the Company, although the Group had taken several measures to simplify operation due to challenging business environment and severe overcapacity of the industry, the management continued to suspend the production of Xinxin Mining according to the Group's strategy considering the scale and risk factors. As Hebei Province has launched special plans relating to environment management, which put forward appropriate economic compensation to the surface mines that shut down voluntarily, the management of the Group is in the process of accommodating and facilitating relevant work.

Confronted with slower growth of China's economy, and higher level of macro-debts, many domestic banks and financial institutions have greatly tightened the loan-granting policies and taken more conservative measures for loan approval and renewal, especially the business with bad prospects, high risks or severe overcapacity such as the steel industry. The Company may be required to repay relevant bank loans and credit loans (if any), go through more frequent and stricter review in a short term, or undertake cost of capital higher than normal. Since the Group's business was deeply affected by prudent measures of banks, it is well aware that long-term bank credit loans are faced with many difficulties and uncertainties with possible rise in cost of capital. In spite of this, the Group will rise to the challenge and maintain good communication and cooperation with banks and financial institutions. The Group's bank loans were not severely affected as at 31 December 2017.

Due to uncertainties in the industry and price fluctuation, the Group has been proactively seeking for diversified development in order to prevent the performance fluctuation brought forth by the periodicity of the steel and mining industry. The Group finished the acquisition of Xinan Investment Co., Ltd. and its subsidiary (the "Target Group") in July 2016, beginning its engagement in hospital management business. The construction and renovation projects of the entrusted hospital in the planning area were not carried out as scheduled in the absence of the planning of Xiong'an New District, so the aforesaid hospital management business failed to reach the expected conditions when acquired. In addition to the performance compensation, there were indications of impairments in respect of relevant businesses which, after impairment testing, recognised relevant impairment losses.

BUSINESS REVIEW

In 2017, the market condition of the iron ore industry recovered due to the influence of supply-side reforms. Both Jiheng Mining and Jingyuancheng Mining operated stably, but the overall cash operating costs increased due to factors such as lower production grades. During the Year, revenue of the Group increased by 14.8% as compared to the same period last year to approximately RMB869.1 million, which was attributable to the increase in the price of iron concentrates benefited from the supply-side reform of the steel industry, but the above increase was partially offset by the decline in the Group's iron concentrates production. During the Year, gross profit of the Group was approximately RMB274.4 million and the gross profit margin was approximately 31.6%, which was lower than last year. During the Year, impairment losses amounted to approximately RMB449.1 million, as the mining area integration scheme of Zhijiazhuang Mine approved in 2014 could not be implemented due to environmental protection policies; besides, value in use of the operating assets of Xinxin Mining declined due to long-term shutdown of the mine; and impairment of assets was recorded in the newly acquired hospital operating assets of the Group due to little progress in such business because the planning of Xiong'an New Area has not been implemented yet. The decrease in distribution costs and administrative expenses were mainly due to mining business reducing the product transportation shared internally and the cost control. As a result, the total loss and comprehensive loss attributable to owners of the Company amounted to approximately RMB352.8 million.

During the Year, output of iron ore concentrates of the Group was approximately 1,680.6 thousand tons (corresponding period in 2016: approximately 1,798.0 thousand tons), representing a year-on-year decrease of approximately 6.5%. The sales volume of iron ore concentrates was approximately 1,698.2 thousand tons (corresponding period in 2016: approximately 1,855.6 thousand tons), representing a year-on-year decrease of approximately 8.5%. The average unit cash operating cost was approximately RMB291.2/ton, with the average unit cash operating cost of approximately RMB191.9/ton for Jiheng Mining and approximately RMB426.7/ton for Jingyuancheng Mining.

The table below sets out the breakdown of output and sales volume for each operating subsidiary of the Group:

The Group	As at 31 December Output (Kt)			As at 31 December Sales volume (Kt)			As at 31 December Average sales price (RMB)		
	2017	2016	% of change	2017	2016	% of change	2017	2016	% of change
Jiheng Mining									
Iron ore concentrates	**970.2**	1091.7	-11.1%	**968.3**	1122.5	-13.7%	**482.7**	373.6	29.2%
Jingyuancheng Mining									
Iron ore concentrates	**710.4**	706.3	0.6%	**729.9**	724.9	0.7%	**550.0**	431.2	27.6%
Xinxin Mining									
Iron ore concentrates	**–**	–	–	**–**	8.2	–	**–**	320.0	–
Total									
Iron ore concentrates	**1680.6**	1798.0	-6.5%	**1,698.2**	1855.6	-8.5%	**511.7**	395.8	29.2%

Notes:

(1) The TFe grade of iron ore concentrates sold by Jiheng Mining was 63%.

(2) The TFe grade of iron ore concentrates sold by Jingyuancheng Mining and Xinxin Mining was 66%.

RESOURCES AND RESERVES

During the Reporting Period, the Group did not incur any new exploration expenses as no exploration was conducted.

The iron ore reserves which complied with JORC Code (2004 Edition) in respect of each mine of the Group as at 31 December 2017 are shown in the following table:

Company	Mine	Exploration approach	Reserve category	Depleted reserve[1]			Ore reserves[2]		
				(Kt)	TFe (%)	mFe (%)	(Kt)	TFe (%)	mFe (%)
Jiheng Mining	Zhijiazhuang	Open-pit	Probable	4,526	17.76	16.05	4,318	40.80	40.44
Jingyuancheng Mining	Wang'ergou	Open-pit	Probable	11,233	9.75	2.79	10,198	18.92	12.60
		Underground	Probable (graded 12% or above)						
	Shuanmazhuang	Open-pit	Probable	2,069	9.85	2.82	85,800	13.64	5.62
		Underground	Probable (graded 12% or above)	–	–	–	35,723	16.00	7.11
Xinxin Mining	Gufen	Open-pit	Probable	–	–	–	50,672	12.74	6.23
		Underground	Probable (graded 12% or above)	–	–	–	58,750	15.35	8.50
Total		Open-pit	Probable	17,828	11.80	6.16	150,988	14.48	7.29
		Underground	Probable (graded 12% or above)	–	–	–	112,550	15.64	8.06
		Total	Probable	17,828	11.80	6.16	263,538	14.97	7.62

Notes:

(1) Consumption of reserves represents the production statistical results of the mines for the current period, which are calculated by the operating department of the respective mining companies and reviewed by internal experts of the Group.

(2) The outcome of the ore reserves in this report was based on the estimated results of the ore reserves stated in the Competent Person's Report by SRK in November 2013 less the consumption from 1 July 2013 to 31 December 2017, the estimated assumptions in the report published in 2013 has not been changed.

As at 31 December 2017, the iron ore resources which complied with JORC Code (2004 Edition) in respect of each mine of the Group are as follows:

Company	Mine	Resource class	Depleted resource for the period[1]			Resource at the end of the period[2]		
			(Kt)	TFe (%)	mFe (%)	(Kt)	TFe (%)	mFe (%)
Jiheng Mining	Zhijiazhuang	Indicated resource	4,480	18.31	16.55	7,746	27.63	26.97
		Inferred resource	–	–	–	9,426	27.58	25.82
Jingyuancheng Mining	Wang'ergou	Indicated resource	11,117	10.05	2.88	41,845	14.66	7.52
		Inferred resource	–	–	–	39,250	13.03	5.85
	Shuanmazhuang	Indicated resource	2,048	10.15	2.91	147,973	14.02	5.76
		Inferred resource	–	–	–	73,935	12.81	4.92
Xinxin Mining	Gufen	Indicated resource	–	–	–	153,413	13.21	6.50
		Inferred resource	–	–	–	101,100	12.44	6.03
Total		Indicated resource	17,645	12.16	6.35	350,977	14.41	7.00
		Inferred resource	–	–	–	223,711	13.30	6.46
		Total resources	17,645	12.16	6.35	574,688	13.97	6.79

Notes:

(1) Consumption of resources is calculated based on the consumption of resources for the current period and the waste rock rate and ore loss rate of the mine as set out in the viability report on Jiheng Mining, Jingyuancheng Mining and Xinxin Mining, which is reviewed by the internal experts of the Group.

(2) The outcome of the ore resources in this report was based on the estimated results of the ore resources stated in the Competent Person's Report by SRK in November 2013 less the consumption from 1 July 2013 to 31 December 2017, the estimated assumptions in the report published in 2013 has not been changed.

MINES IN OPERATION

The Group has finished the building infrastructure and stripping projects of all the iron ore mines in 2015. As a result, the Group had no additional expenditure on building infrastructure and stripping projects during the Reporting Period. Furthermore, since the average stripping ratio of the operating entities in China was lower than their respective remaining mines during the Reporting Period, no qualified capitalised production and stripping costs were recorded.

Zhijiazhuang Mine

Zhijiazhuang Mine, which is wholly owned and operated by Jiheng Mining, is located in Yangjiazhuang Village, Laiyuan County. The area covered by the mining license for Zhijiazhuang Mine is 0.3337 sq.km. Jiheng Mining has comprehensive basic infrastructures such as water, electricity, highway and railway, etc. The annual mining capacity of Zhijiazhuang Mine was 2.4 Mtpa, and the dry processing capacity and the wet processing capacity were 4.20 Mtpa and 1.80 Mtpa, respectively, as at 31 December 2017.

The following table sets forth a breakdown of cash operating costs of Zhijiazhuang Mine:

Iron ore concentrates

Unit: RMB per tonne of iron ore concentrates	For the year ended 31 December		% of change
	2017	**2016**	
Mining costs	**79.3**	64.9	22.2%
Dry-processing costs	**22.2**	14.6	52.1%
Wet-processing costs	**51.1**	46.2	10.6%
Administrative expenses	**22.0**	26.0	-15.4%
Distribution costs	**–**	6.1	–
Taxation	**17.3**	14.5	19.3%
Total	**191.9**	172.3	11.4%

During the Reporting Period, the unit cash operating cost of the iron ore concentrates of Zhijiazhuang Mine increased as compared with that of last year. Increase in the cost of each production process was mainly due to lower grade of iron ore produced; no distribution cost was recorded, as the freight charges were not borne by Jiheng Mining during the year.

Wang'ergou Mine and Shuanmazhuang Mine

Wang'ergou Mine and Shuanmazhuang Mine, which are both wholly-owned and operated by our wholly-owned subsidiary, Jingyuancheng Mining, are located in Zoumayi Village, Laiyuan County. The areas covered by the mining licenses for Wang'ergou Mine and Shuanmazhuang Mine are 1.5287 sq.km and 2.1871 sq.km, respectively. Wang'ergou and Shuanmazhuang have comprehensive basic infrastructures such as water, electricity and highway. As at 31 December 2017, the aggregate annual mining capacity of Wang'ergou Mine and Shuanmazhuang Mine was 14.0 Mtpa, and the dry processing capacity and wet processing capacity were 17.6 Mtpa and 3.5 Mtpa, respectively.

The following table sets forth a breakdown of the cash operating costs of Wang'ergou Mine and Shuanmazhuang Mine:

Iron ore concentrates

Unit: RMB per tonne of iron ore concentrates	For the year ended 31 December 2017	2016	% of change
Mining costs	210.9	140.5	50.1%
Dry-processing costs	98.2	76.6	28.2%
Wet-processing costs	57.1	51.8	10.2%
Administrative expenses	23.9	32.4	-26.2%
Distribution costs	15.1	8.6	75.6%
Taxation	21.5	17.7	21.5%
Total	426.7	327.6	30.3%

During the Reporting Period, the unit cash operating cost of the iron ore concentrates of Wang'ergou Mine and Shuanmazhuang Mine increased as compared with that of last year. Increase in the cost of each production process was mainly due to lower grade of iron ore produced. Reduction in administrative expenses was mainly attributable to cost control. Increase in taxation was mainly due to increase in the payment of resource tax imposed by the government.

Gufen Mine

Gufen Mine, which is owned and operated by our wholly-owned subsidiary, Xinxin Mining, is located in Shuibao Village, Laiyuan County and the area covered by the mining right for Gufen Mine is 1.3821 sq.km. Gufen Mine has comprehensive basic infrastructures such as water, electricity and highway. As at 31 December 2017, Gufen Mine's annual mining capacity was 3.90 Mtpa, and the dry processing capacity and the wet processing capacity were 5.75 Mtpa and 1.60 Mtpa, respectively.

At the end of 2015, since the domestic and global price of iron ore remained low, the management of the Group decided to temporarily suspend the production of Xinxin Mining after considering the market outlook, the production and operation of Xinxin Mining, especially the relationship between the mining, processing costs and the expected selling price and its percentage in the whole business.

During the Reporting Period, although the iron ore price remained stable, based on the reasons above and a comprehensive consideration of the benefits and risks of the resumption of production the relatively small-scale Xinxin Mining, the management of the Group decided to continue the suspension of production of Xinxin Mining's mining and processing activities. So far, the suspension mentioned above has exceeded over one year. As a result of deferral of mine development plan, the Group identified indications of further impairment in relation to Xinxin Mining.

MEDICAL SERVICE

BUSINESS REVIEW

After the completion of the acquisition on 13 July 2016 (the particulars of which are set out more clearly in the announcement of the Company dated 5 and 13 July 2016), the Group possessed hospital management business. The hospital management business is mainly operated by the Group's subsidiary Baoding Xinan Medical Management Consulting Limited ("Baoding Xinan").

Baoding Xinan is principally engaged in the hospital management business of Rongcheng County Hospital of Traditional Chinese Medicine (容城縣中醫醫院) (the "Entrusted Hospital") in Baoding, Heibei Province. The Entrusted Hospital was established in 1987. In 1994, the Entrusted Hospital set up a 120 Emergency Call Center in Rongcheng County. The Entrusted Hospital has a total area of approximately 9,000 square meters, of which approximately 8,550 square meters are floor area. The Entrusted Hospital has 192 employees in total, among which 156 employees are healthcare personnel. The Entrusted Hospital has 150 beds in total and 13 first-level clinical departments.

The Group was committed to establishing a medical management team, and at the same time, it continued to employ teams of experts for the Entrusted Hospital, in order to strengthen the management and operation capabilities of the medical institution, enhance the overall medical technology level of the Entrusted Hospital and provide better and quality services to the patients, so as to create long-term stable return for the shareholders.

Profit Guarantee

Pursuant to the sale and purchase agreement entered into between the Company, Jovial Link Investments Limited (連欣投資有限公司) ("Jovial Link") (as vendor) and Mr. Li Chung Tai (李忠泰), Ms. Lee Sam Mui (李三妹) and Mr. Li Shunfa (李順發) (collectively, the "Guarantors") (as guarantors), Jovial Link and the Guarantors jointly and severally made irrevocable commitment and guarantee to the Company that the audited consolidated profit after tax of the Target Group for the financial years ended 31 December 2017 and 31 December 2016 (the "Guaranteed Period") shall not be less than RMB2.5 million and RMB7.75 million (the "Guaranteed Amount"), respectively. If the actual amount of the audited consolidated profit after tax of the Target Group (the "Actual Profit") was less than the Guaranteed Amount of that financial year during the Guaranteed Period, Jovial Link and the Guarantors shall pay the Guaranteed Amount difference of that financial year to the Company in cash.

For the financial year ended 31 December 2017, the audited consolidated profit after tax of the Target Group recorded a loss of approximately RMB744,623.15. Accordingly, Jovial Link and the Guarantors made up for the Guaranteed Amount difference of RMB8,494,623.15 in total (HKD10,162,127 according to the central parity rate issued by the People's Bank of China on 29 December 2017: HKD1 against RMB0.83591) through cheque payment to the Company on 26 March 2018. For the year ended 31 December 2017, the Guarantors achieved the guarantee set out in the sale and purchase agreement, with relevant pledged shares to be returned to owners.

Such loss was mainly attributable to the announcement made by the Chinese government on 1 April 2017 regarding construction of the Xiong'an New Area and the above-mentioned Entrusted Hospital is located in the new administrative district of the area. Before implementation of the planning for the Xiong'an New Area, the government prohibited the approval and construction of non-relevant projects. As a result, the renovation and expansion of the hospital have not been proceeded so far. During the Reporting Period, the number of patient consultation visits of the Entrusted Hospital was approximately 85,680 times, which increased by approximately 13,391 times compared to the corresponding period of the last year; incomes from clinic and hospital fees were approximately RMB30.9 million, which increased by approximately RMB5.1 million compared to the corresponding period last year.

The following table sets forth the specific operating data of our medical institutions managed by the Group:

Rongcheng County Hospital of Traditional Chinese Medicine

		For the year ended 31 December		
	Unit	2017	2016	Rate of increase
Patient visits	times	**85,680**	72,289	18.5%
Inpatient visits	times	**3,073**	2,930	4.9%
Outpatient visits	times	**82,607**	69,359	19.1%
Average spending per inpatient visit	RMB	**5,271.7**	4,712.7	11.9%
Average spending per outpatient visit	RMB	**177.4**	172.8	2.7%
Average length of stay	day	**6.8**	6.8	–
Number of beds in operation	bed	**150**	150	–

On 28 April 2017, the Group entered into a MOU with the shareholder of a pharmaceutical logistics enterprise (the "Target Company"). planning to acquire all the equity interest of the Target Company upon completion of restructuring. However, the Group deemed that it was not mature to make above acquisition according to due diligence investigation, and after receipt of prepayments, the Group will continue to seek for other acquisition targets in the medical treatment field to promote the business transformation of the company.

SAFETY AND ENVIRONMENTAL PROTECTION

The Group established a production safety management department specifically responsible for production safety and management. This department had been consistently promoting safety standards and strengthening environmental protection policies so as to develop the Group into a socially responsible enterprise with high safety awareness. During the Reporting Period, the Group recorded no significant safety accident.

Owing to the deteriorating air quality in Mainland China, especially in Beijing and Hebei Province, it is anticipated that the PRC government will inevitably tighten the relevant environmental policies over resource mining, steelmaking, cement production and other high-pollution industries. To mitigate the potential impact of the policies to our business, the Group will closely monitor the latest regulatory requirements and introduce appropriate environmental measures to our operation and production from time to time. Meanwhile, we will evaluate the impact from updated regulatory requirement on Company's operation and the measures to respond from time to time.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, the Group had 888 full-time employees in total (915 employees in total as at 31 December 2016), among which 46 were management and administrative staffs, 33 were technicians, 15 were staffs responsible for procurement and sales and 794 were responsible for operation. For the year ended 31 December 2017, expenses of employees' benefit (including salaries, wages, pension plan contributions and other benefits) were approximately RMB75.5 million (2016: RMB70.3 million). Details are set out in Note 5 to the financial statements in this annual report.

Remuneration policy of the Group is determined based on performance, experience, competence and the level of comparable companies in the market. Remuneration packages generally include salaries, housing allowances, pension plan contributions and discretionary bonuses related to the performance of the Group.

FINANCIAL REVIEW

Revenue

The revenue of our Group for the Reporting Period was approximately RMB869.1 million, representing an increase of approximately RMB112.0 million as compared to the corresponding period last year, which was mainly attributable to a higher selling price of iron ore concentrates during the Reporting period over the corresponding period last year and the resulting growth of revenue was partially offset by the decrease in sales of iron ore concentrates.

Cost of sales

The Group's cost of sales for the Reporting Period was approximately RMB594.8 million, representing a increase of approximately RMB106.5 million as compared to the corresponding period last year, which was mainly attributable to the increase of the unit production cost of iron ore concentrates.

Gross profit and gross profit margin

The gross profit of the Group for the Reporting Period was approximately RMB274.4 million, representing an increase of approximately RMB5.5 million or 2.1% as compared to the corresponding period last year which was mainly attributable to a higher selling price of iron ore concentrates and was partially offset by the increase of cost of iron ore concentrates. The Group's gross profit margin decreased slightly during the Reporting Period from 35.5% to 31.6% as compared to the corresponding period last year, for the increase of cost was higher than the increase of selling price.

Sales and distribution expenses

The Group's sales and distribution expenses for the Reporting Period were approximately RMB10.7 million, representing a decrease of approximately RMB2.4 million or 18.4% as compared to the corresponding period last year, which was mainly due to the decrease of the total sales volume of the products which the Group were responsible for the delivery to the customers and the related transportation cost. Sales and distribution expenses included transportation expenses, labour cost and other expenses.

Administrative expenses

The Group's administrative expenses for the Reporting Period were approximately RMB74.1 million, representing a decrease of approximately RMB23.2 million or 23.8% as compared to the corresponding period last year. Administrative expenses included salaries paid to the management and administrative staff of the Group, depreciation and amortization, rental and office expenses, business development expenses, professional consulting and services expenses, taxation expenses, the bank charges, provision for impairment of inventories, the provision for bad debts and other expenses.

Impairment losses

The Group recorded an impairment loss of approximately RMB449.1 million during the Reporting Period, which was based on the recoverable amount for the Reporting Period of the related assets valued at the end of the Reporting Period. It included the impairment of RMB321.0 million from the intangible assets of Jiheng Mining, the impairment loss of approximately RMB37.3 million, approximately RMB17.4 million and approximately RMB73.4 million from property, plant and equipment of Xinxin Mining, the intangible assets, and the goodwill of medical business. Set out below are the reasons, details of events and circumstances leading to the recognition of impairment loss during the Reporting Period:

Jiheng Mining

Pursuant to the Approval of the Creation Plan for Mining Rights (Authorized by the Provincial Department) in Baoding (Ji Guo Tu Zi Han [2014] No.421) (冀國土資函[2014]421號文件《關於保定市採礦權(省廳發證權限)設置方案的批覆》) (the "**Approval**") issued by Hebei Provincial Department of Land and Resources on 24 June 2014, which approved the integration of the five mining rights of Yaobeigou Iron Ore Mine (in the surrounding area of Jiheng Mining) in Zhijiazhuang, Laiyuan County, Heibei Province, Jiheng Mining, a wholly-owned subsidiary of the Company, entered into acquisition agreements on 19 August 2014 and 18 December 2014 respectively and completed the acquisition of Yucheng Processing Plant and Wanxing Industry. The consideration for acquisition of Yucheng Processing Plant and Wanxing Industry was RMB217 million and RMB104 million, respectively.

However, the price of iron ore continued to decline in the following years and the Group was unable to agree on the price for the remaining mining rights referred to in the Approval with the owners. As such, the Group did not reach any agreements in respect of the other mining rights in the region and had to put the integration work on hold. The mining licenses of Yaobeigou Iron Ore Mine acquired from Yucheng Processing Plant and Wanxing Industry expired on 8 June 2016 and 14 December 2015, respectively. As the aforesaid five mining rights had to be consolidated before a new mining licence will be issued and that the Group has not completed the integration work, the mining licenses from Yucheng Processing Plant and Wanxing Industry had therefore not been renewed.

The Group noted that the applicable environmental protection policies had become increasingly stringent. The Ad-hoc Action Plan for Pollution Remediation of Open-pit Mines in Hebei Province (Ji Qi Ling Ban [2016] No.24)(《河北省露天礦山污染深度整治專項行動方案》(冀氣領辦[2016]24號)) and BGTZZ [2018] No.51 (保國土資字[2018] 51號文件) issued by Baoding Municipal Land and Resources Bureau have stated that the approval and registration of new construction projects for open-pit mines should be suspended. Having taken into account the events and circumstances set out in the preceding paragraphs, in particular the change of government policies, the Board took the view that further integration work in the future is virtually impossible, and therefore decided to take a prudent approach and made full impairment of RMB321.0 million for Yucheng Processing Plant and Wanxing Industry.

Xinxin Mining

The impairment loss of Xinxin Mining was first recognised by the Company at the end of 2015. The impairment loss of Xinxin Mining in 2015 was mainly due to the significant drop of iron ore price. The Group engaged an independent valuer to conduct the valuation (the "**2015 Xinxin Valuation**") on the value of the long-term assets, including property, plant and equipment, construction in progress, intangible assets of Xinxin Mining with the valuation benchmark date being 31 December 2015. According to the 2015 Xinxin Valuation, the impairment loss of Xinxin Mining in 2015 amounted to approximately RMB59.9 million.

In 2016, although the iron ore price experienced a significant increase, after considering the market outlook, the production and operation of Xinxin Mining, especially the relationship between the mining, processing costs and the expected selling price and its percentage in the whole business and a comprehensive consideration of the benefits and risks of the resumption of production of the relatively small-scale Xinxin Mining, the management of the Group decided to continue the suspension of production of Xinxin Mining's mining and processing activities. As the iron ore price increased continuously at the end of 2016, no impairment loss in respect of the assets in relation to Xinxin Mining was recognized for the year ended 31 December 2016.

In the first half of 2017, the Group continued to suspend the production of Xinxin Mining as the aforesaid circumstances remained unchanged. In view of Xinxin Mining's suspension of production for more than one year, the Group recognised an impairment loss amounted to approximately RMB9.6 million in respect of property, plants and equipment and approximately RMB4.4 million in respect of intangible assets.

At the end of 2017, due to the long term suspension of production of Xinxin Mining, the Group considered that there may be further indication of impairment loss. The Group engaged an independent valuer to conduct valuation (the "**2017 Xinxin Valuation**") on the long term assets of Xinxin Mining such as property, plant and equipment, construction in progress and intangible assets using 31 December 2017 as the valuation benchmark date to calculate the new use value of Xinxin Mining. Based on the 2017 Xinxin Valuation, the Group recognised an impairment loss amounted to approximately RMB37.3 million in respect of property, plant and equipment and approximately RMB17.4 million in respect of intangible assets.

Hospital management business after acquisition of Xinan Invesments Limited (the "Xinan")

Xinan was acquired by the Group pursuant to a sale and purchase agreement with Jovial Link Investments Limited. The consideration for the acquisition was RMB213,000,000. An independent valuer was engaged to value the entire equity interest of Xinan (the "**2016 Xinan Valuation**") and based on the valuation report (the "**2016 Xinan Valuation**"), the value of the entire equity interest of Xinan as at 22 June 2016 was assessed at RMB213,765,600. The Group commenced the hospital management business after acquisition of Xinan.

In the first half of 2017, due to the announcement of the establishment of Xiong'an New District, the new construction and reconstruction projects of the entrusted hospital in the planning area were postponed. The management of the Group believed that there were signs of impairment loss in relation to Xinan and the recognition of the impairment loss was based on the assessment of the recoverable amount of the relevant assets as at 30 June 2017 at the end of the reporting period. The impairment loss of Xinan amounted to RMB10.5 million.

In 2017, as the planning of Xiong'an New District had not yet been implemented, the newly constructed and reconstructed projects of the entrusted hospital in the planning area cannot be launched on schedule. The hospital management business did not achieve the Group's expectation at the time of acquisition. The Group instructed an independent valuer to conduct valuation (the "**2017 Xinan Valuation**") in respect of Xinan using 31 December 2017 as the valuation benchmark date. Based on the 2017 Xinan Valuation, the Group recognized an impairment loss amounted to approximately RMB73.4million.

Details in relation to independent valuation of asset impairment on Xinxin Mining:

(a) The value of the inputs adopted in the 2015 Xinxin Valuation and 2017 Xinxin Valuation are set out as follows:

Please refer to Schedule 1 for detailed information of value of inputs adopted by 2015 Xinxin Valuation and 2017 Xinxin Valuation. The valuation methods adopted in the two valuation reports are the same, but there were differences in the value of inputs, such as discount rate, risk free return rate, market expected rate of return, Beta value and risk adjustment factor. Due to different valuation time points, the value of inputs has changed. Please refer to Schedule 1 for specific changes.

(b) Basis and assumptions which were adopted by both 2015 Xinxin Valuation and 2017 Xinxin Valuation:

1. Transaction assumption
   Transaction assumption assumes that all assets to be valued are in the course of transactions such that the valuer values the assets by simulating a market based on their transaction conditions. The transaction assumption is the most basic prerequisite assumption in an asset valuation.

2. Open market assumption
   Open market assumption assumes that for assets traded or proposed to be traded in the market, both trading parties are in equal status and have opportunities and time to obtain sufficient market information so as to make rational judgments on the functions, usage and trading prices of the assets. The open market assumption is based on the situation where the assets can be traded in the open market.

3. Assumption on continuing operation of the assets
   Under the assumption on continuing operation of the assets, the appraisal approach, parameters and basis of the appraisal are determined on the basis that the assets will continue to be used under their current usage, methods, scale, frequency and in the same environment or will be used subject to changes thereto.

4. No material change of external environment
   The valuation assumed that the external economic environment remains unchanged and there are no material changes in the current macroeconomic conditions in the PRC as at the valuation benchmark date.

5. No material change of social-economic environment
   There are no material changes in either the social-economic environment where the enterprise operates or the tax policy and tax rates enacted.

6. Valuation based on actual amount of stocks and prevailing market prices
The valuation was based on the actual amount of stocks of all assets as at the valuation benchmark date, and the prevailing market prices of relevant assets are based on the effective domestic prices on the valuation benchmark date.

7. Accuracy and completeness of information
The valuation assumed that the basic information and financial information provided by the instructing party and the entity being appraised were true, accurate and complete.

8. Scope of valuation
The scope of the valuation was based only on the declaration lists provided by the instructing party and the entity being appraised, without taking into account the contingent assets or contingent liabilities which may have existed but were not listed by the instructing party and the entity being appraised.

9. Exclusion of the effect of inflation
Inflation was not considered in the estimation of parameters in the valuation.

Due to different time points of 2015 Xinxin Valuation and 2017 Xinxin Valuation, the book value of assets used in the two valuations was different. The production period which was the basis for the two valuations was also different. Please refer to Schedule 1 for more detailed information in relation to the different production period adopted.

(c) the valuation methods used in 2015 Xinxin Valuation and 2017 Xinxin Valuation were as follows:

The valuation method used in both 2015 Xinxin Valuation and 2017 Xinxin Valuation were discounted cash flow method. The valuation methods conducted generally include market method, discounted cash flow method and cost method. According to Appraisal Guide for Financial Reporting issued by China Appraisal Society, the cost method does not apply to the asset impairment testing under the accounting standards.

The assessment conducted in relation to Xinxin Mining is to serve the impairment test of the fixed assets group and mining rights of Xinxin Mining. From the specific purpose of the assessment and the relevant provisions of the Accounting Standards for Business Enterprises, the market method is usually adopted if it is the net amount of the fair value of the assets minus the disposal expenses. However, due to the small number of transaction cases of mines under construction, it is difficult to collect the fair trade data. Therefore, it is not appropriate to adopt the market method to determine the recoverable amount of assets under the current valuation. The discounted cash flow method is a method of assessing the value of assets by estimating the present value of future expected returns of the assets being assessed. The present value of the estimated future cash flow of assets is the discounted value of expected future cash flows of assets that an enterprise holds through production and operation or holds under liabilities with normal operating conditions. As both the cost method and market method are not appropriate for the impairment assessment of Xinxin Mining, the discounted cash flow method was adopted for the 2015 Xinxin Valuation and 2017 Xinin Valuation.

Details in relation to independent valuation of asset impairment on Xinan:

(a) The value of inputs adopted in the 2017 Xinan Valuation:

Please refer to Schedule 2 for detailed information of value of inputs adopted by 2017 Xinan Valuation.

(b) The basis and assumptions adopted in 2017 Xinan Valuation were as follows:

1. Transaction assumption
Transaction assumption assumes that all assets to be valued are in the course of transactions such that the valuer values the assets by simulating a market based on their transaction conditions. The transaction assumption is the most basic prerequisite assumption in an asset valuation.

2. Open market assumption
Open market assumption assumes that for assets traded or proposed to be traded in the market, both trading parties are in equal status and have opportunities and time to obtain sufficient market information so as to make rational judgments on the functions, usage and trading prices of the assets. The open market assumption is based on the situation where the assets can be traded in the open market.

3. Assumption on continuing operation of the assets
Under the assumption on continuing operation of the assets, the appraisal approach, parameters and basis of the appraisal are determined on the basis that the assets will continue to be used under their current usage, methods, scale, frequency and in the same environment or will be used subject to changes thereto.

4. No material change of external environment
The valuation assumed that the external economic environment remains unchanged and there are no material changes in the current macroeconomic conditions in the PRC as at the valuation benchmark date.

5. No material change of social-economic environment
There are no material changes in either the social-economic environment where the enterprise operates or the tax policy and tax rates enacted.

6. Due diligence of the management team and consistency of management model
The valuations were based on that the future management team of the company under valuation will perform its duties and continue to maintain the existing business management model.

7. Valuation based on actual amount of stocks and prevailing market prices
The valuation was based on the actual amount of stocks of all assets as at the valuation benchmark date, and the prevailing market prices of relevant assets are based on the effective domestic prices on the valuation benchmark date.

8. Accuracy and completeness of information
   The valuation assumed that the basic information and financial information provided by the instructing party and the entity being appraised were true, accurate and complete.

9. Scope of valuation
   The scope of the valuation was based only on the declaration lists provided by the instructing party and the entity being appraised, without taking into account the contingent assets or contingent liabilities which may have existed but were not listed by the instructing party and the entity being appraised.

10. Cash inflow of the assets and cash outflow of the assets
    The valuation was based on that after the benchmark date the cash inflows of the assets under valuation are average inflows, and cash outflows of the assets under valuation are the average outflows.

11. The two-stage model was adopted in 2017 Xinan Valuation from valuation benchmark date to the year of 2026. Please refer to Schedule 2 for detailed information in relation to the two-stage model.

(c) the valuation method used in 2017 Xinan Valuation was as follows:

The target of 2017 Xinan Valuation was the total assets and liabilities of Xinan. The purpose of the 2017 Xinan Valuation was to appraise the market value of all assets and liabilities of Xinan at the appraisal benchmark date and to provide value reference basis for the proposed economic activity of goodwill impairment testing which was to be carried out by the Group. There are three valuation methods which are appropriate for the valuation of Xinan including market method, income method and asset-based method.

According to the purpose of the valuation, the characteristics of the valuation target and the conditions for using the valuation method, the income method was adopted for the 2017 Xinan Valuation. In accordance with the relevant provisions of the national management department and the Guiding Opinions on Corporate Valuation, as well as international and domestic similar transaction valuation practices, the income method was adopted for the valuation of the equity capital of the valuation target combined with the using of discounted cash flow method.

The discounted cash flow method is a method of assessing the value of assets by converting the expected future net cash flow of the company into present value. The basic idea is to convert the estimated future net cash flow of the assets into current value by estimating the expected future net cash flow of the asset and using an appropriate discount rate. The basic conditions for the application of the discounted cash flow method are that the company has the basis and conditions for continuing operations, a relatively stable relationship between the operation and income and that the future earnings and risks can be predicted and quantified. The forecast of future expected cash flow and objectivity and reliability of the data collection and processing are also important to the valuation.

Asset based approach and income approach were adopted in 2016 Xinan Valuation while income approach was adopted in 2017 Xinan Valuation. Different valuation methods were adopted as the two valuations were prepared for different purposes. The 2016 Xinan Valuation was prepared for the purpose of, among other things, the contemplated acquisition of Xinan by the Group, while the 2017 Xinan Valuation was prepared for the purpose of assessing the impairment of goodwill. For the reasons set out in the preceding paragraphs, the Company considers that the income approach provided an objective analysis in the 2017 Xinan Valuation. As different approach were adopted in the valuations, the Company considers comparison of assumptions and value of inputs not meaningful.

Schedule 1:

	2015 Xinxin Mining	2017 Xinxin Mining
Date of valuation report	2016/2/25	2018/3/23
Valuation Benchmark Date	2015/12/31	2017/12/31
Valuation Method	Discounted cash flow method	Discounted cash flow method
Discount Rate	In consideration of risk free return rate, market expected rate of return, Beta value and risk adjustment factor, the discount rate was determined to be 11.37%	In consideration of risk free return rate, market expected rate of return, Beta value and risk adjustment factor, the discount rate was determined to be 12.7%
Valuation Model	Reasonable predictions based on reasonable mining years, mine recoverable reserves, mine production capacity and the ability to mix waste rock with ore	Reasonable predictions based on reasonable mining years, mine recoverable reserves, mine production capacity and the ability to mix waste rock with ore
Production Period	2016-2034	2020-2038

Note 1:

The discount rate, which is a relatively complex value of input, includes a number of value of inputs such as risk free return rate, market expected rate of return, Beta value and specific risk adjustment factor, which vary in different periods. When we conduct the valuation, we will select the appropriate value of inputs for calculation according to different period. Therefore, the specific value of the discount rate is different due to the different periods and timings of the two valuations. The value of input such as iron ore price is based on the prediction for the future. The valuers selected several international consulting companies to estimate the median price of future iron ore prices in conjunction with their predictions for future trends. Simply put, these international consulting firms predicted that the iron ore price will remain stable in the next few years and there will be no significant changes.

Schedule 2:

	2017 Xinan Valuation
Date of Valuation Report	2018/3/23
Valuation Benchmark Date	2017/12/31
Purpose of Valuation	Impairment testing
Method	Income Method
Discount Rate	13.15%
Model Used	Two-stage model was adopted. From the valuation benchmark date to 2026, a reasonable forecast of the company's revenue, costs and profits will be made based on the actual conditions of the company, policies and markets.

Finance costs

The Group's finance cost for the Reporting Period was approximately RMB45.6 million, representing an increase of approximately RMB2.0 million or 4.6% as compared to the corresponding period last year. Finance cost included interest expenses of bank borrowings, discounted expenses, other finance expenses and the amortization of discounted expenses of long-term payables.

Income tax expenses

The Group's income tax expenses for the Reporting Period were approximately RMB55.8 million, while the income tax expenses for the corresponding period last year were approximately RMB33.3 million. Income tax expenses comprise the aggregate of current tax payable and deferred tax, among which current tax payable was approximately RMB65.1 million.

Loss for the year and total comprehensive income for the year

Based on the above reasons, the Group recorded the loss during the Reporting Period of approximately RMB357.1 million, which was mainly due to the impact of impairment on assets. The Group's total comprehensive loss for the Reporting Period was approximately RMB358.2 million.

Property, plant and equipment

The property, plant and equipment, net of the Group for as at 31 December 2017 were approximately RMB759.5 million, representing a decrease of approximately RMB83.1 million or 9.9%. The change was mainly due to impairment of Xinxin Mining's property, plant and equipment.

Intangible assets and goodwill

Intangible assets of the Group mainly include mining rights and related premium paid to obtain the mining rights, and the hospital management right newly acquired. Goodwill of the Group arose from acquisition of the Target Group. As at 31 December 2017, the net intangible assets of the Group were approximately RMB369.7 million (the net intangible assets as at 31 December 2016 were approximately RMB753.8 million). Goodwill was approximately RMB0 million (the goodwill as at 31 December 2016 was RMB73.4 million).

Inventories

As at 31 December 2017, inventories of the Group amounted to approximately RMB91.6 million, representing a decrease of approximately RMB14.6 million or 13.7% as compared to that of 2016. It was mainly attributable to the adjustment in the Group's sales strategy to raise sales volume as a result of the recovery in the price of iron ore concentrates in 2017.

Trade and other receivables

As of 31 December 2017, trade receivables of the Group amounted to approximately RMB89.6 million, representing an increase of approximately RMB21.2 million as compared to that of the corresponding period of last year. The increase was mainly attributable to increase in receivables in a short term due to sale strategy of low inventory. As of 31 December 2017, other receivables of the Group amounted to approximately RMB206.0 million, representing a increase of approximately RMB150.7 million as compared to that of the corresponding period of last year. The increase was mainly due to a increase in the Group's prepayments to third party contractors.

Trade and other payables

As of 31 December 2017, trade payables of the Group amounted to approximately RMB110.4 million, representing an increase of approximately RMB3.7 million as compared to that of corresponding period of last year. The increase was mainly attributable to increase in trade payables to major suppliers.

As of 31 December 2017, other payables of the Group amounted to approximately RMB77.7 million, representing an increase of approximately RMB4.0 million as compared to that of corresponding period of last year. The increase was mainly attributable to an increase in accrued expenses, payables on cost relating to staff and other deposits.

The analysis of cash usage

The summary of our Group consolidated cash flow statement for 2017 is set out as follows.

	For the year ended 31 December	
	2017 RMB'000	2016 RMB'000
Net cash flows generated from operating activities	**60,480**	369,186
Net cash flows used in investing activities	**(21,049)**	(466,519)
Net cash flows (used in)/generated from financing activities	**(19,027)**	83,085
Net increase/(decrease) in cash and cash equivalents	**20,404**	(14,248)
Cash and cash equivalents at the beginning of the year	**46,577**	59,495
Effect of foreign exchange rate changes to cash and cash equivalents	**(1,236)**	1,330
Cash and cash equivalents at the end of the year	**65,745**	46,577

Net cash flow generated from operating activities

The Group's net cash flow generated from operating activities for the Reporting Period amounted to approximately RMB60.5 million, which mainly included the loss before tax of approximately RMB301.2 million, certain non-cash expenses in aggregate of approximately RMB591.9 million (e.g. impairment losses, depreciation and amortization and net loss from disposal of assets), decrease in inventories of approximately RMB14.6 million, and net interest expense of approximately RMB41.7 million, less increase in trade and other receivables of approximately RMB 230.8 million, decrease in trade and other payables of approximately RMB12.0 million and less income tax paid of approximately RMB43.8 million.

Net cash flow used in investing activities

The Group's net cash flow used in investing activities for the Reporting Period was approximately RMB21.0 million, which was primarily used for payment of approximately RMB48.2 million for purchase of mining rights, final payment for acquired assets, technology transformation, construction of tailings and other sporadic construction, and the inflow of approximately RMB27.1 million in total to purchase and redemption of short-term wealth management products of bank, fixed deposits difference and interest income.

Net cash flow (used in)/generated from financing activities

The Group's net cash outflow from financing activities for the Reporting Period was approximately RMB19.0 million, which mainly represented new loans raised of aggregated RMB10.0 million and payment of bank interests of approximately RMB29.0 million.

Cash and borrowings

As at 31 December 2017, the balance of cash and cash equivalents of the Group amounted to approximately RMB65.7 million, representing an increase of approximately RMB19.1 million or 41.0% as compared with the corresponding period of last year.

As at 31 December 2017, bank loans of the Group was RMB320.0 million, representing an increase of RMB10.0 million or 3.2% as compared with the end of last year. The interest rates of the borrowings as at 31 December 2017 ranged from 4.35%-6.53% (corresponding period of last year was 4.35%-6.53%) per annum. All of the borrowings were accounted for as current liabilities of the Group (as at 31 December 2016: 100%). The above borrowings were denominated in RMB.

Save as disclosed above, the Group has no outstanding mortgages, pledges, bonds or other loan capital (issued or agreed to be issued), bank overdrafts, borrowings, acceptance liabilities or other similar liabilities, hire purchase and finance lease commitments, or any guarantees or other material contingent liabilities. The Directors have confirmed that there was no material change in the liabilities and contingent liabilities of the Group since 31 December 2017 and up to the date of this report.

As at 31 December 2017, the overall financial status of the Group remained in a good condition.

Restricted deposits

As at 31 December 2017, the Group's restricted deposits mainly represented the bank deposits for one year, deposits pledged as guarantees of bills payable and other deposits amounted to approximately RMB279.8 million, RMB60.0 million and RMB3.0 million, respectively (as at 31 December 2016: approximately RMB257.0 million, RMB40.0 million and RMB1.0 million).

Gearing ratio

The gearing ratio of the Group increased from approximately 33.4% as at 31 December 2016 to approximately 39.6% as at 31 December 2017. The gearing ratio is calculated by dividing the total debts by total assets.

Capital expenditure

The Group's total capital expenditure amounted to approximately RMB48.2 million, which consisted of (i) payment by installments of mining rights cost and interests; (ii) construction of new tailings reservoir for Jiheng Mining and technology transformation of Jingyuan Mining; and (iii) final payment for Jiheng Mining's acquisition of tailings reservoir and transformer substation and (iv) other sporadic constructions.

Interest rate risk and foreign currency risk

The fair value interest rate risk of the Group is primarily related to the bank borrowings. Most of the bank borrowings of the Group expire within one year, therefore their fair value interest rate risk is low. The Company currently does not have an interest rate hedging policy. However, the management of the Group monitors interest rate risk and will consider to hedge significant interest rate risk when necessary.

The principal business of the Group is located in the PRC and the principal operation and transactions are carried out in RMB. Substantially all of the assets and liabilities of the Group are denominated in RMB. Since RMB is not freely convertible, the PRC government may take actions to affect the exchange rate exposure, which may affect the Group's net assets, earnings and any dividend declared if such dividends are translated into foreign currency. The Group had no hedging in respect of the exchange rate risk.

Significant acquisitions and disposals of subsidiaries and affiliated companies

The Group had no significant acquisitions and disposals of subsidiaries and affiliated companies as at 31 December 2017.

Pledge of assets and contingent liabilities

As at 31 December 2017, the Group's bank loans of RMB200.0 million and RMB120.0 million were secured by the Group's mining rights, land use rights and properties and by the land use rights and properties of a related party of the Group, respectively. As at 31 December 2016, the Group's bank loans were secured by the Group's mining rights.

The carrying amounts of the Group's mining rights, land use rights and properties pledged for bank loans were approximately RMB28.1 million, RMB10.9 million, and RMB46.5 million respectively as at 31 December 2017. The Group had no material contingent liabilities as at 31 December 2017.

Significant investments held

Save as disclosed in this report, there were no significant investments held by the Company as at 31 December 2017.

FUTURE OUTLOOK

Although the world's economy is expected to continue its recovery, there are still considerable instabilities and uncertainties due to variables brought by policy adjustment of major economies and its spillover effect, escalating protectionism and mounting risk of geopolitics. China now is at the critical moment of transforming its development mode, optimizing its economic structure and shifting its growth impetus, with exposure to multiple risks and challenges.

At the first session of the 13th National People's Congress, the report on the work of the government put forward that "the supply-side structural reform" would be continuously promoted, and announced that steel capacity would be cut by another 30 million tons in 2018 with a view to further reducing the ineffective supply in the steel industry. As the province with the largest scale of steel production in China, Hebei provincial government also set forth in its annual report on the work of the government that measures would be taken to further cut down the steel capacity by over 10 million tons in 2018. When the supply-side reform is pushed forward through cutting overcapacity, smog pollution is getting worse day by day in China. Chinese government strictly requires the steel industry to be environmental-friendly as it intensifies the in-depth control on pollution of the open-pit mines, and the approval of mining rights for the open-pit mines in some areas will be suspended. At present, the policy of encouraging the closure of open-pit mines has been introduced, and the certified open-pit mines that are closed by force based on the policy will receive the refund of mining rights cost and the restoration and control deposit in proportions. At present, the Chinese mining section is experiencing a round of big turbulence.

Meanwhile, with the implementation of the planning of Xiong'an New Area, it's the key work for Hebei Province to plan Xiong'an New Area with high aims and build it in high standards and meticulously carry out the planning and the implementation of Xiong'an New Area in accordance with the requirements for creating the innovative demonstration zone with new development ideas in the year of 2018. As such projects as the new airport in Beijing, the Beijing-Xiong'an Intercity Railway, the Rongwu New Line and the Beijing-Xiong'an Expressway are kicking off and continuing their construction, work like diverting non-capital functions of Beijing, actively introducing high-end high-tech industries and attracting high-quality public resources like schools and hospitals to the New Area is being carried out, multiple business opportunities will be brought for the company's continuous business transformation while the infrastructure construction in the very area where the company is located is maintaining a certain intensity.

BUSINESS STRATEGY

In the light of the continuing reform of supply side of Chinese steel sector, and the continuing enhancement of the rectification of open pit mine pollution by Chinese Government and the full uncertainties in markets as well as policies, the Group will insist on prudent tactics, keep controlling the operation cost in cash while maintaining the existing capacity and ensure steady cash flow for the Group in order to provide complete financial resources for its business transformation. In July 2016, the Group acquired Medical Service Group, marking a solid step for the corporate's business transformation. Though the prospect in profitability in the foregoing medical service business is facing the effects of important policies due to the layout of Xiong'an New Area and other elements, the Group has gotten the chance to access to and even enter the fields related to medical sector. Along with the deeper understanding of the sector, the Group's management will push the Group's ongoing transformation toward medical business in a better way.

The Group will not only consummate the performance in operation and finance proactively, but also continually push forward and examine diversified investment, improve operation efficiency and optimize the utilization rate. Though there are several signs of far-reaching resuscitation in product price, the resource segment may still fluctuate on the whole. Therefore, the Group will continue concern on the latest policies in steel sector and mine sector, and proactively promote the transformation toward medical sector by taking advantage of the existing resources and geographic location. Guided by this guideline, the management will keep flexible operation in order to improve far-reaching value for shareholders.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

BIOGRAPHIES OF EXECUTIVE DIRECTORS

Mr. Li Yanjun (李豔軍), aged 53, is our executive Director and the chairman of the Board, and is mainly responsible for the overall business plan, strategies and major decisions of our Group. Mr. Li is the founder of the Group, and through the positions he held at Hebei Aowei Industrial Group Co., Ltd. ("Aowei Group"), Laiyuan County Aoyu Steel Co., Ltd. (淶源縣奧宇鋼鐵有限公司) ("Aoyu Steel") and the Group, Mr. Li has over 20 years of experience in the iron ore mining, steel industry and corporate management. Mr. Li was also a member of the 12th National People's Congress (第十二屆全國人大). Mr. Li Yanjun is the father of Mr. Li Ziwei.

Mr. Leung Hongying Li Ziwei (also known as Li Ziwei) (李子威), aged 30, is our executive Director and the vice chairman of the Board and is responsible for our Group's business development and investments. Mr. Li joined our Group in August 2008. He has gained over eight years of experience in the iron ore mining industry from his involvement in the areas of procurement, supply and sales of raw materials and steel products at Aowei Group, Aoyu Steel and our Group. He is also the director of Hengshi Development International Limited. Mr. Li Ziwei is the son of Mr. Li Yanjun.

Mr. Huang Kai (黃凱), aged 44, is our executive Director and was appointed as the chief executive officer of the Company on 30 March 2016. He is responsible for the Group's overall business management and daily operation of medical business. Mr. Huang has over 10 years of management experience. From March 2004 to February 2012, he successively served as the head of corporate governance department, the assistant general manager and a deputy general manager of Aoyu Steel. Mr. Huang joined our Group in March 2010 as the vice chief of the preparatory group responsible for establishing Laiyuan County Aowei Mining Investments Co., Ltd. (淶源縣奧威礦業投資有限公司) ("Aowei Mining"). He has been a standing deputy general manager of Aowei Mining since February 2012. As the Group's business transformed, he began to participate in the development of medical business in 2015. Mr. Huang attended the continuing education course of iron and steel at Tsinghua University from July 2004 to October 2005. He obtained a bachelor's degree in Business Management from Renmin University of China in June 2013 by correspondence.

Sun Jianhua (孫建華), aged 35, is our executive Director and the chief financial officer. He is responsible for our Group's accounting and financial management. He joined the Group in February 2012 and was appointed as executive director of the Company in June 2013. Mr. Sun has over 10 years of experience in financial and accounting management. He served as the head of the finance department of Aowei Mining from February 2012 to June 2013. He held various positions at Aoyu Steel between February 2004 and February 2012, including accountant, head of the finance division and vice head of the finance department. He was also appointed as a director of Xinan Investments Limited and Xinan Limited since August 2016. Mr. Sun graduated from Baoding Financial Senior Professional Institute (保定市金融高等專科學校) in June 2003. He was admitted as a certified public accountant by the Chinese Institute of Certified Public Accountants in December 2010 and was accredited as a certified tax advisor by the State Administration of Taxation in June 2011 and a certified public valuer by the Ministry of Finance of the PRC in September 2011.

Mr. Li Jinsheng (李金生), aged 55, is our executive Director. He is responsible for Aowei Mining's overall business management and daily operation. From January 2005 to February 2006, Mr. Li served as the general manager of Laiyuan Xinxin Mining, an indirectly wholly owned subsidiary of the Company. From February 2006 to March 2012, Mr. Li was the general manager of Aoyu Steel. From April 2012 to March 2016, Mr. Li served as the deputy general manager of Aowei Group and was responsible for assisting the general manager in the business operation and development of the company. Mr. Li was appointed as an executive director of the Company on 30 March 2016, and was also appointed as a director and the general manager of Aowei Mining, an indirect wholly-owned subsidiary of the Company, and was responsible for its business management and daily operations.

Mr. Tu Quanping (塗全平), aged 48, is our executive Director. He is responsible for the supervision of mining, processing, design and mining plan of all our iron ore mines. Mr. Tu has more than 20 years of experience in the mining industry. Since joining our Group in August 2005, he has been in charge of the project design, infrastructure construction, development and mining of our mines, coordination of our production plan, design of the technical parameters of our ore preparation plants and onsite management and supervision. Prior to joining our Group, Mr. Tu served as a mining engineer, and chief of mining, of Anhui Magang Group Nanshan Mining Company (安徽馬鋼集團南山礦業公司) from August 1991 to August 2005. Mr. Tu obtained a bachelor's degree in Mining Engineering from Wuhan Steel Institute (武漢鋼鐵學院) (now known as Wuhan University of Science and Technology (武漢科技大學) in July 1991. He took the postgraduate course of enterprise planning and development at Nanjing University (南京大學) from September 2001 to December 2003. Mr. Tu was accredited as a senior mining engineer by Magang Metallurgy Projects Senior Engineer Evaluation Committee (馬鋼冶金工程高級工程師評審委員會) in December 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ge Xinjian (葛新建), aged 58, is our independent non-executive Director. He serves as the general manager of Anhui Xinjian Mining Engineering Technology Co., Ltd. (安徽新建礦業工程技術有限責任公司). Mr. Ge has more than 35 years of experience in processing research, design and technical management. Mr. Ge currently serves as a member of the 7th Ore Dressing Branch Committee of the Chinese Society for Metals (中國金屬學會選礦分會委員會), the part-time professor Anhui University of Technology, the member of the Expert Committee of China Metallurgical Mining Enterprise Association (中國冶金礦山企業協會), the standing director of the China Mining Development Strategic Alliance (中國礦業發展戰略聯盟). Mr. Ge served as the chief engineer of Magang Group Design & Research Institute Co., Ltd. (馬鋼集團設計研究院有限責任公司) from March 2004 to December 2014. During this period,Mr. Ge was also as the vice president from August 2011 to December 2014.

Mr. Ge published several theses in different professional journals and compiled many professional works, including Current Application of High-Pressure Grinder of Metallurgy Mine in China"高壓輥磨工藝在我國冶金礦山的應用現狀" (Modern Mining, 9th edition of 2009). Mr. Ge obtained a bachelor's degree in Ore Dressing from Jiangxi Metallurgy Institute (江西冶金學院) (now known as Jiangxi University of Science and Technology (江西理工大學)) in July 1983. Mr. Ge is a professor-level senior engineer in ore dressing recognized by Personnel Department of Anhui Province (安徽省人事廳) in December 2009, a national mineral reserves appraiser recognized by Department of Personnel and Education of Ministry of Land and Resources (國土資源部人事教育司) in September 2007 and a registered national environment engineer recognized by Personnel Department of Anhui Province in September 2007.

Mr. Meng Likun (孟立坤), aged 56, is our independent non-executive Director. Mr. Meng has been the Chairman of the Board of Guojie Investments Holding Ltd. (國傑投資控股有限公司) since October 2014. Mr. Meng served as the special consultant of Rongtong Fund Management Co., Ltd. (融通基金管理有限公司) from March 2010 to January 2012. He served as the president and an executive director of New Time Securities Co., Ltd. (新時代證券有限責任公司) from May 2006 to January 2009. He acted as the chairman of the board of directors of Rongtong Fund Management Co., Ltd. from May 2001 to March 2010.

Mr. Meng obtained a bachelor's degree in mechanical design and a master's degree in engineering from Taiyuan Mechanical Engineering College (太原機械學院), now known as North University of China (中北大學) in July 1982 and September 1986 respectively, and obtained a doctorate degree in engineering from Beijing Institute of Technology (北京理工大學) in March 1993.

Mr. Kong Chi Mo (江智武), aged 42, was appointed as our independent non-executive Director since 26 June 2013. Mr. Kong is primarily responsible for providing independent advice and guidance to the Board.

Mr. Kong has over 19 years of experience in accounting, auditing, financial management, corporate finance, investor relations, company secretarial affairs and corporate governance.6Presently, Mr. Kong holds the position of independent non-executive director in AK Medical Holdings Limited (a company whose shares are listed on the Main Board of the Stock Exchange, stock code: 01789), Huazhang Technology Holding Limited (a company whose shares are listed on the Main Board of the Stock Exchange, stock code: 01673), ZACD Group Ltd. (a company whose shares are listed on the Growth Enterprise Market of the Stock Exchange, stock code: 08313) and Starlight Culture Entertainment Group Limited (a company whose shares are listed on the Main Board of the Stock Exchange, stock code: 01159), whereas in China Vanadium Titano-Magnetite Mining Company Limited (the "China Vanadium") (a company whose shares are listed on the Main Board of the Stock Exchange, stock code: 00893), he holds the position of company secretary and authorised representative.

Prior to this, he was the independent non-executive director of CAA Resources Limited (stock code: 2112), a company also listed on the main board of the Hong Kong Stock Exchange from April 2013 to August 2017. Mr. Kong was the executive director and chief financial officer of China Vanadium from October 2013 to May 2015 and from May 2008 to May 2015, respectively. Mr. Kong worked at KPMG from October 1999 to December 2007 and was promoted to senior manager during his term of office. Prior to joining KPMG, Mr. Kong worked as a finance trainee in Hutchison Telecommunications (Hong Kong) Limited from June 1997 to March 1998, and as an associate in PricewaterhouseCoopers from March 1998 to October 1999.

Mr. Kong obtained his Bachelor's Degree in Business Administration from The Chinese University of Hong Kong in December 1997. Mr. Kong has been a fellow of The Association of Chartered Certified Accountants since February 2008, a member of The Hong Kong Institute of Directors since May 2010, a fellow of each of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators since February 2012, an ordinary member of Hong Kong Securities and Investment Institute since October 2017 and a full member of Hong Kong Investor Relations Association since November 2017.

Mr. Kong obtained his Bachelor's Degree in Business Administration from The Chinese University of Hong Kong in December 1997. Mr. Kong has been a fellow of The Association of Chartered Certified Accountants since February 2008, a member of The Hong Kong Institute of Directors since May 2010, a fellow of each of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators since February 2012, an ordinary member of Hong Kong Securities and Investment Institute since October 2017 and a full member of Hong Kong Investor Relations Association since November 2017.

SENIOR MANAGEMENT

Mr. Gao Changquan (部常泉), aged 47, is the deputy general manager of Aowei Mining. He is responsible for the administrative affairs and finance and accounting of Aowei Mining. Mr. Gao has approximately 25 years of experience in accounting and financial management. Mr. Gao first joined our Group in February 2005, where he served as the head of finance division of Xinxin Mining until March 2006. From March 2006 to February 2013, he served as the head of finance department of Aoyu Steel. He rejoined our Group in February 2013 as the head of the finance department of Aowei Mining, and was appointed as the deputy general manager of Aowei Mining in March 2016. Prior to joining our Group, Mr. Gao was an accountant of Baoding Xiangda Garment Manufactory Co., Ltd. (保定翔達製衣有限公司) from June 1993 to January 2005. Mr. Gao obtained an undergraduate diploma in Accounting from The Open University of China (中國廣播電視大學) in January 2009.

Mr. Li Shaoshun (李紹順), aged 47, is the director and deputy general manager of Aowei Mining and is responsible of the production management, environment, health and safety of Aowei Mining. Mr. Li has over 12 years' experience in industrial marketing and management from April 2004 to April 2012. Mr. Li was the dispatching manager and general manager of the department of production and technology of Aoyu Steel. He joined the Group in 2012 and was the deputy general manager of Jingyuancheng Mining, during which he was responsible for production, operation and management from April 2012 to March 2016. He has been the deputy general manager of Aowei Mining since March 2016. Mr. Li graduated from Anshan Institute of Iron & Steel Technology with an undergraduate diploma and a bachelor's degree in iron and steel metallurgy in July 1992.

Mr. Li Dongfeng (李東風), aged 46, is a director of Aowei Mining and Jiheng Mining. He also serves as the general manager of Jiheng Mining. He is responsible for the general management and daily operation of Jiheng Mining. Mr. Li has over 10 years of experience in industrial marketing and management. From December 1996 to March 2004, he served as the business manager of Aowei Group. From March 2004 to June 2007, he served as a deputy general manager of Laiyuan County Huiyuan Mining Company Limited (淶源縣匯源礦業有限公司). From July 2007 to August 2010, he served as the general manager of Laiyuan County Xinrui Mining Company Limited (淶源縣鑫瑞礦業有限公司). Mr. Li joined our Group in August 2010 and since then has served as a director and the general manager of Jiheng Mining.

Mr. Jin Jiangsheng (金江生), aged 51, is the general manager of Jingyuancheng Mining and Xinxin Mining. He is responsible for the general management and daily operation of Jingyuancheng Mining and Xinxin Mining. Mr. Jin has over 10 years of experience in industrial marketing and management. He first joined our Group in December 2004, where he served as the leader of water concentration plant of Xinxin Mining until June 2006. Between June 2006 and February 2012, he worked at Aoyu Steel and subsequently served as the head of the sintering plant and the steel plant. He rejoined our Group in February 2012 as the general manager of Jingyuancheng Mining, and was also appointed as the general manager of Xinxin Mining in March 2016. Prior to joining our Group, Mr. Jin worked in Rongcheng County Machinery Plant (容城縣機械廠) and subsequently served as the head of the processing workshop, the head of the sales division and the head of Rongcheng County Machinery Plant from February 1991 to December 2003.

Save as disclosed above, the directors and senior management have no other positions as directors in the listed Companies.

JOINT COMPANY SECRETARIES

Mr. Meng Ziheng (孟子恒), aged 33, is the joint company secretary of our Company. From April 2011 to June 2013, Mr. Meng has been an investment manager at the strategic investment department of Aowei Group. He served as a manager at the operation management department of Aowei Group from April 2010 to March 2011. He worked at the equipment maintenance department of Hebei Guohua Dingzhou Power Generation Co., Ltd. (河北國華定洲發電有限責任公司) from July 2007 to March 2010. Mr. Meng graduated from the North China Electric Power University (華北電力大學) in July 2007, majoring in software engineering, and obtained a bachelor's degree. Mr. Meng's qualification to act as the Company Secretary under Rule 3.28 of the Rules Governing the Listing of Securities on the Stock Exchange has been confirmed by the Stock Exchange on 7 November 2017.

Ms. Kwong Yin Ping, Yvonne (鄺燕萍), is the joint company secretary of our Company. Ms. Kwong obtained a bachelor's degree of arts in accountancy from the Hong Kong Polytechnic University (香港理工大學). She works as vice president in a professional corporate services company which is engaged in providing secretarial and compliance services for listed companies. She is also a fellow of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators of the United Kingdom. She has extensive experience in providing company secretarial services for numerous private and listed companies. She serves as company secretary and joint company secretary of various companies listed on the Hong Kong Stock Exchange. Mr. Meng Ziheng is the main contact person of Ms. Kwong in the Company.

REPORT OF THE DIRECTORS

The Directors wish to present the report of the Directors together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Group is principally engaged in two major businesses, namely (i) the exploration, mining, processing and sales, the products for sales are iron ores, preliminary concentrates and iron ore concentrates; and (ii) the provision of hospital management services.

BUSINESS REVIEW

After careful deliberation, the Directors have reviewed the Group's business and made an analysis of the Group's performance in accordance with the requirement of Schedule 5 to the Companies' Ordinance, Chapter 622 of the Laws of Hong Kong, including the discussions of the major risks and uncertainties facing the Group and the disclosure of the future business development the Group will probably achieve. Please refer to the Chairman's Statement, Management Discussion and Analysis and the Corporate Governance Report - Risk Management and Internal Control of this annual report. These discussions form part of this Report of the Directors.

FINANCIAL ACCOUNTING DATA AND FINANCIAL KEY PERFORMANCE INDICATORS (NOTE)

	For the year ended 31 December		
	2017	**2016**	**% of change**
Sales and distribution expenses*	**(10,731)**	(13,144)	-18.4%
Profit before taxation*	**(301,180)**	118,950	-353.2%
Earnings per share	**(0.22)**	0.05	-540.0%
Gross profit margin	**31.6%**	35.5%	-11.0%

	As at 31 December		
	2017	**2016**	**% of change**
Bank balances and cash*	**65,745**	46,577	41.2%
Intangible assets*	**369,709**	753,758	-51.0%

Note:

1. Reasons for choosing the financial key performance indicators and relationship with the Group's objective

   The Group was originally incorporated in the British Virgin Islands on 14 January 2011 under the laws of British Virgin Islands, and redomiciled to the Cayman Islands on 23 May 2013. The Group is principally engaged in the exploration, mining, processing and trading of iron ore and the major products includes iron ores, preliminary concentrates and iron ore concentrates in the People's Republic of China. Therefore, Sales and distribution expenses is a significant indicator to reflect the Group's ore trading business. Operating in the iron ore industry which was partially influenced by environment related policies, the Group was in the process of expanding transformation and diversifying business portfolio by accomplishing acquisition of Xinan Investments Limited and its subsidiaries so as to enter hospital management service. In light of the aforesaid, the intangible assets and goodwill are also significant financial key performance indicators to display the operation of hospital management service acquired by the Group.

2. For trend analysis represented by each financial key performance indicators, please refer to the "Management Discussion and Analysis" for the trend analysis.

3. Differences between the financial key performance indicators and financial statements

   No difference is noted between the financial key performance indicators and the financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operations of the Group, some of which are inherent to the business of the Group and some are from external sources. Major risks are summarized below:

- **Risks arising from macro-economy**

  The Company's business is conducted in China. Therefore, the Company's business performance, financial position and future outlook are influenced by China's macro-economy. As China's economy are in a stage of transformation and upgrade, the structural reform on supply side to address overcapacity in the industry will pose potential influence over the Company's business. The Group aims to enter the healthcare business and maintain the current mining business, in order to achieve business diversification as well as to cope with the aforesaid risks.

- **Risks arising from changes in government policies and regulations**

  Due to an increasingly stringent environment protection policies implemented in China since 2017, especially around Beijing-Tianjin area where the Company is situated at, the industry of surface mining became one of the industries placed under close scrutiny of pollution control authorities. In view of the above, the Group's integration of mines was affected by the policies. To cope with such situation, the Company applied various technical measures to ensure its compliance with laws and regulations pertaining to environment protection, and proactively look for opportunities of business transformation so as to avoid the increasingly stringent environment policy.

- **Risks arising from competition**

  According to the report or production information published by major international iron ore producers, production plan previously formulated by such producers will continue to be implemented and there will be no large-scale production cut. As a result, their low-cost products will continue to enter the international markets including China, and domestic steel manufacturers will import more of their iron ore products, which will affect the sales of domestic iron ore producers. The Group will try to maintain its market share through active marketing strategy and good relationship with downstream customers.

- **Risks arising from product price fluctuations**

  Under the influence of various factors, such as continuous downturn of economy, structural adjustment, economic transformation and environmental protection management, it is expected that there will be a further decrease in the demand for steel which will in turn affect the demand for the Group's iron ore products. Moreover, it is difficult to resolve the overcapacity of steel production in the short run and the problem of imbalance in supply and demand is still severe and as such the downturn pressure of iron ore price still remains high.

  The Group will leverage on its low-cost advantage and increase production and sale in good market conditions to hedge the risk of declining price. The Group will also reduce cost of technology upgrade and refine management and reduce administrative expenses through simplifying manpower. The above measures altogether will help the Group to minimize the impact on the profitability brought by declining price.

- **Risks arising from difficulties in collecting accounts receivable**
  The Group granted some customers certain credit period in accordance with the credit status of the customers as well as business practices, which resulted in the Group having accumulated some trade receivables. However, due to the sluggish and continuous downturn of iron ore's down-stream products, if certain customers experienced cash flow problem, their debt repayment ability will be affected, which will in turn lead to longer overdue period, making it more difficult for the Group to recover the trade receivables from the customers. The Group has established internal control system and accounts receivable management system, which require regular update of customers' credit status. The Group has also put in more effort to collect trade receivables in order to reduce the risk of bad debt.

- **Risks arising from production**
  Although the Group is committed to maintaining a high level of safety in the production process, iron ore mining, one of the main business activities of the Group is relatively hazardous by its nature and affected by a number of external factors which are beyond the control of the Group, including the production environment and natural disaster. Production safety is significant to the sustainable and stable development of the Group. The Group has established production safety system and set up designated department to supervise the performance, and ensure the safe production of the Group's operating mines through safety education and improvement of infrastructures.

PERMITTED INDEMNITY

The articles of association (the "Articles") of the Company provides that the Directors shall be indemnified and held harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors.

A directors' liability insurance is in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

RESULTS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 92 of this annual report.

DIVIDENDS

The Board does not recommend the distribution of a final dividend for the year ended 31 December 2017 (2016: Nil).

ANNUAL GENERAL MEETING

The 2018 annual general meeting of the Company (the "2018 AGM") will be held at 10:30 a.m. on 29 May 2018 at Meeting Room, 17 Floor Block C, BITC, A6 Jianguomen Wai Street, Chaoyang District, Beijing.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 23 May 2018 to Tuesday, 29 May 2018 (both days inclusive) during which period no transfer of Shares will be effected. In order to determine the entitlement to attend and vote at the 2018 AGM, all share transfers accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, 21 May 2018.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year ended 31 December 2017 in the Group's property, plant and equipment are set out in note 11 to the financial statements of this annual report.

SHARE CAPITAL

Details of the movements during the year in the issued share capital of the Company are set out in note 29 to the financial statements of this annual report.

DISTRIBUTABLE RESERVES

Details of the movements during the year ended 31 December 2017 in the reserves of the Group are set out in the consolidated statement of changes in equity on page 95 of this annual report.

As at 31 December 2017, the Company's reserves available for distribution to the Shareholders in accordance with the Articles were RMB1,112 million.

Under the Cayman Companies Law, subject to the provision of its Articles, the share premium account may be applied by the Company in paying distributions or dividends to its members or in paying up unissued shares to be issued to its members as fully paid bonus shares provided that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

The reserves of the Company available for distribution depend on the dividend distributable by the Company's subsidiaries. For dividend purpose, the amount which the Company's subsidiaries in the PRC can legally distribute by way of a dividend is determined by reference to their distributable profits as reflected in the PRC statutory financial statements which are prepared in accordance with accounting principles generally accepted in the PRC. These distributable profits differ from those that are reflected in the Group's financial statements prepared in accordance with the IFRSs.

FINANCIAL SUMMARY

A summary of the results, assets, liabilities and shareholders' interests of the Group for the last five financial years is set out on pages 5 to 6 of this annual report.

LOANS AND BORROWINGS

Details of the loans and borrowings of the Group are set out in note 24 to financial statements of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The total sale and purchase from the Group's major suppliers and customers for the year ended 31 December 2017 and 2016 are set out as follows:

	2017		2016	
	% of the Group's total		% of the Group's total	
	Sale	Purchase	Sale	Purchase
Largest customer	44.1%	–	38.5%	–
Total of five largest customers	93.0%	–	89.8%	–
Largest supplier	–	15.5%	–	16.4%
Total of five largest suppliers	–	50.1%	–	49.7%

During the year, the Group's customers were highly concentrated primarily because (i) iron ores are bulk raw materials and the customers required stable supply; and (ii) the production volumes of self-produced products were insufficient to adequately satisfy the requirements of multiple target customers. The Group was aware of the risk of concentrated customer base and has entered into non-exclusive sales agreements with several potential customers. Pursuant to the agreements, the Group is able to sell any of our products to the potential customers without any restrictions.

For the year ended 31 December 2017, to the knowledge of Directors, none of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest suppliers or customers.

DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth certain information in respect of the Directors and senior management for the year and as at the date of this annual report:

Name	Position/Title in the Group	Date of Appointment or Re-election
Li Yanjun	Chairman and Executive Director	26 May 2016
Leung Hongying Li Ziwei (also known as Li Ziwei)	Vice Chairman and Executive Director	29 May 2017
Huang Kai	Executive Director and Chief Executive Officer	26 May 2016 30 March 2016 (appointed as the Chief Executive Officer of the Company)
Sun Jianhua	Executive Director and Chief Financial Officer	29 May 2017
Li Jinsheng	Executive Director and general manager of Aowei Mining	26 May 2016 (appointed as Executive Director) 30 March 2016 (appointed as the general manager of Aowei Mining)
Tu Quanping	Executive Director	28 May 2015

Name	Position/Title in the Group	Date of Appointment or Re-election
Ge Xinjian	Independent Non-executive Director	26 May 2016
Meng Likun	Independent Non-executive Director	29 May 2017
Kong Chi Mo	Independent Non-executive Director	28 May 2015
Gao Changquan	Deputy general manager of Aowei Mining	30 March 2016 (appointed as the deputy general manager of Aowei Mining)
Li Shaoshun	Director and deputy general manager of Aowei Mining	30 March 2016 (appointed as deputy general manager of Aowei Mining) 1 November 2016 (appointed as director of Aowei Mining)
Li Dongfeng	Director of Aowei Mining and general manager of Jiheng Mining	8 June 2011 (appointed as director of Aowei Mining) 10 August 2010 (appointed as the general manager of Jiheng Mining)
Jin Jiangsheng	Director of Jingyuancheng Mining And the general manager Xinxin Mining	28 February 2012 (appointed as the general manager of Jingyuancheng Mining) 15 April 2016 (appointed as the general manager of Xinxin Mining)

Biographical details of the current Directors are set out in the section headed "Biographies of Directors and Senior Management" on pages 36 to 39 of this annual report.

In accordance with the Articles, Mr. Li Yanjun, Mr. Tu Quanping and Mr. Kong Chi Mo will retire at the 2018 AGM, and being eligible, will offer themselves for re-election at the 2018 AGM.

SERVICE CONTRACTS OF THE DIRECTORS

None of the Directors has signed with the Company any service contract that cannot be terminated without compensation (exclusive of statutory compensation) within one year.

REMUNERATION FOR THE DIRECTORS AND TOP FIVE HIGHEST PAID INDIVIDUALS

Detailed information on remuneration for the Directors and top five highest paid individuals of the Company is set out in notes 7 and 8 to the consolidated financial statements.

None of the Directors has agreed to waive any remuneration for the year ended 31 December 2017.The remuneration for the Directors was proposed by the remuneration committee of the Company (the "Remuneration Committee"), which would take into account remuneration paid by similar companies, conditions of employment, responsibilities and individual performance when proposing the remuneration.

EMOLUMENT POLICIES

The emolument policies of the Group are based on performance, experience, competence and market comparables. Remuneration packages generally comprise salary, housing allowance, contribution to pension schemes and discretionary bonus relating to the performance of the Group.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2017, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(1) Interests in the Shares:

Name of Directors	Capacity/Nature of interest	Number of Shares (Long Position)	Approximate percentage of issued Shares
Mr. Leung Hongying Li Ziwei (also known as Li Ziwei)	Founder of a discretionary trust[2]	1,221,877,000[L]	74.72%
Mr. Li Yanjun	Interests held jointly with another person[2]	1,221,877,000[L]	74.72%

Notes:

1. The letter "L" denotes long position in the Shares.

2. Mr. Leung Hongying Li Ziwei (also known as Li Ziwei) is the settlor, protector and a beneficiary of the Chak Trust with Credit Suisse Trust Limited as the trustee which holds the entire issued share capital of Hengshi Holdings Limited (holding 100% issued share capital of Hengshi International Investments Limited) through Chak Limited and is the settler, protector and a beneficiary of the Seven Trust with Credit Suisse Trust Limited as the trustee which holds the entire issued share capital of Aowei International Developments Limited through Seven Limited. Pursuant to the Confirmation Letters, Mr. Leung Hongying Li Ziwei and Mr. Li Yanjun have acted and will continue to act in concert to make decisions and exercise discretions in respect of the matters of the Chak Trust and the Seven Trust and exercise all voting rights attached to the shares of Hengshi International Investments Limited and Aowei International Developments Limited, respectively. Therefore, Mr. Leung Hongying Li Ziwei and Mr. Li Yanjun are deemed to be interested in the 1,188,127,000 Shares held by Hengshi International Investments Limited (which is 100% owned by Hengshi Holdings Limited) as disclosed above and the 33,750,000 Shares held by Aowei International Developments Limited.

SUBSTANTIAL SHAREHOLDERS' INTERESTS OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2017 and so far as is known to the Directors, the interests or short positions of the substantial shareholders, other than the Directors or the chief executives of the Company whose interests and short positions in the shares of the Company and of its associated corporations (within the meaning of Part XV of the SFO) as set out above, who had 5% or more interests or short positions in the Shares and underlying Shares as recorded in the register required to be maintained by the Company under Section 336 of the SFO, were as follows:

Name of Shareholders	Capacity/Nature of interest	Number of Shares (Long Position)	Approximate percentage in issued Shares
Aowei International Developments Limited	Beneficial owner(2)	1,221,877,000(L)	74.72%
Chak Limited	Interest in controlled corporation(2)	1,221,877,000(L)	74.72%
Credit Suisse Trust Limited	Trustee	1,221,877,000(L)	74.72%
Hengshi Holdings Limited	Interest in controlled corporation(2)	1,221,877,000(L)	74.72%
Hengshi International Investments Limited	Beneficial owner(2)	1,221,877,000(L)	74.72%
Seven Limited	Interest in controlled corporation(2)	1,221,877,000(L)	74.72%

Notes:

(1) The letter "L" denotes long position in the Shares.

(2) Hengshi Holdings Limited holds 100% issued share capital of Hengshi International Investments Limited, thus Hengshi Holdings Limited is deemed to be interested in the 1,188,127,000 Shares held by Hengshi International Investments Limited. Chak Limited holds 100% issued share capital of Hengshi Holdings Limited, thus Chak Limited is deemed to be interested in the 1,188,127,000 Shares held by Hengshi International Investments Limited. Seven Limited holds 100% issued share capital of Aowei International Developments Limited, thus Seven Limited is deemed to be interested in the 33,750,000 Shares held by Aowei International Developments Limited.

Mr. Leung Hongying Li Ziwei and Mr. Li Yanjun are the ultimate controlling shareholders of Chak Limited, Hengshi Holdings Limited, Hengshi International Investments Limited, Seven Limited and Aowei International Developments Limited. Therefore, Chak Limited, Hengshi Holdings Limited, Hengshi International Investments Limited, Seven Limited and Aowei International Developments Limited are deemed to be interested in all the 1,221,877,000 shares. Pursuant to the Confirmation Letters, Mr. Leung Hongying Li Ziwei and Mr. Li Yanjun have acted and will continue to act in concert to make decisions and exercise discretions in respect of the matters of the Chak Trust and the Seven Trust and exercise all voting rights attached to the shares of Hengshi International Investments Limited and Aowei International Developments Limited, respectively.

Save as disclosed above, so far as is known by or otherwise notified to the Directors, no other person or entity (other than the Director(s) or chief executive(s) of the Company) had interests or short positions in the Shares or underlying Shares representing 5% or more of the issued share capital of the Company as at 31 December 2017.

PRE-EMPTIVE RIGHTS

Pursuant to the Articles, in which the Company was incorporated in the British Virgin Islands and continued in the Cayman Islands, and the laws of the Cayman Islands, there is no provision in relation to pre-emptive rights applicable to the Company.

SHARE OPTION SCHEME

As at the date of this report, the Company did not adopt any share option scheme.

MANAGEMENT CONTRACTS

The Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The related party transactions which also constitute connected transactions as defined in Chapter 14A of the Listing Rules were disclosed in note 32 to the consolidated financial statements. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules for the year ended 31 December 2017.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

On 8 December 2016, Hebei Aowei Industrial Group Co., Ltd. (the "Aowei Group") entered into the property leasing framework agreement (the "2016 Property Leasing Framework Agreement") with the Company, pursuant to which the Company rented properties from Aowei Group as office premises.

Annual caps for the transactions contemplated under the 2016 Property Leasing Framework Agreement for the year ended 31 December 2017, 2018 and 2019 are set out as follows:

	For the year ended 31 December		
	2017	2018	2019
	(RMB Millions)		
Estimated amount of rent paid by the Company to Aowei Group	4.35	4.35	4.35

As Mr. Li Yanjun is one of the Directors and controlling Shareholders of the Company, pursuant to Rule 14A.07 of the Listing Rules, Mr. Li Yanjun is a connected person of the Company. Given that the equity interests of Aowei Group are owned by Mr. Li Yanjun and Mr. Li Xiaojun as to 99% and 1%, respectively, Aowei Group, pursuant to Rule 14A.12(1)(C) of the Listing Rules, is an associate of Mr. Li Yanjun. Therefore, Aowei Group is also a connected person of the Company under Rule 14A.07(4) of the Listing Rules and the transactions contemplated under the 2016 Property Leasing Framework Agreement constitute continuing connected transactions of the Company under the Listing Rules. For further details of the above transactions, please refer to the Company's announcement dated 8 December 2017.

All independent non-executive Directors had reviewed the above continuing connected transaction and confirmed that such transactions had been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) either on normal commercial terms or, if there were no sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreement governing the relevant transactions on terms that were fair and reasonable and in the interests of the Shareholders as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to the Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Company's auditor has issued unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules, and reported that:

(1) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board;

(2) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(3) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreement governing such transactions; and

(4) with respect to the aggregate amount of the continuing connected transactions, nothing has come to their attention that causes them to believe that the amount of the disclosed continuing connected transactions has exceeded the aggregate annual caps disclosed in the previous announcement made by the Company in respect of the disclosed continuing connected transactions.

A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

SIGNIFICANT CONTRACTS

Save as disclosed in the section headed "Connected Transactions and Continuing Connected Transactions" of this annual report, none of the Company or any of its subsidiaries entered into material contracts with the controlling Shareholder or any of its subsidiaries other than the Group, nor was there any material contract between the Group and the controlling Shareholder or any of its subsidiaries other than the Group in relation to provision of services.

COMPLIANCE OF DEED OF NON-COMPETITION

The Company entered into a deed of non-competition (the "Deed of Non-Competition") with Mr. Leung Hongying Li Ziwei, Mr. Li Yanjun, Hengshi International Investments Limited and Hengshi Holdings Limited (collectively, the"Controlling Shareholders") on 12 November 2013. Pursuant to the Deed of Non-Competition, each Controlling Shareholder has undertaken to the Company (for itself and in favour of its subsidiaries) that they will not, profitably or non-profitably, and will procure their associates (except any members of the Group) not to, directly or indirectly, either on his own or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate in or hold interests in or engage in or acquire or hold construction, development, operation or management of any business or activity which competes or may compete with the business of the Group, being the exploration, mining, processing and trading of iron ore products and the major products include iron ores, preliminary concentrates and iron ore concentrates (the "Restricted Business"). The Controlling Shareholders have also granted us an option for new business opportunities, a pre-emptive right and an option for acquisition to acquire any potential interest in their business which competes or is likely to compete, either directly or indirectly, with the Restricted Business.

In accordance with the Deed of Non-Competition, the independent non-executive Directors are responsible for reviewing and considering whether exercising the option for new business opportunities, pre-emptive right and the option for acquisitions as well as conducting annual review of implementation of the Deed of Non-Competition on behalf of the Company. Each Controlling Shareholder has made annual confirmation of compliance with the Deed of Non-Competition, and the independent non-executive Directors have also reviewed the implementation of the Deed of Non-Competition, and confirmed that the Controlling Shareholders have fully abided by the Deed of Non-Competition without any breach of the Deed of Non-Competition.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, there were no transactions, arrangements, or contracts of significance in relation to the business of the Group, to which the Company, its parent, its subsidiaries or fellow subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTROLLING SHAREHOLDER' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries subsisted at the end of year or at any time during the year.

No contracts of significance between the Company or any of its subsidiaries and a controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2017, having made specific enquiry to all Directors, all of them have confirmed that neither themselves nor their respective close associates (as defined in the Listing Rules) held any competing interests in any business which competes or is likely to compete either directly or indirectly with the business of the Group.

SIGNIFICANT SUBSEQUENT EVENTS

There were no significant subsequent events affecting the Group which occurred since 1 January 2018 and up to the date of this report.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 3.21 to the Listing Rule. The Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules (the "CG Code").

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures.

The audit committee currently comprises three independent non-executive Directors, namely Mr. Ge Xinjian (Chairman), Mr. Meng Likun and Mr. Kong Chi Mo. During the year ended 31 December 2017, the audit committee has reviewed (i) the audited financial statements and annual results announcement of the Group for the year ended 31 December 2016; and (ii) the financial statements and interim results announcement of the Group for the six months ended 30 June 2017. During the year ended 31 December 2017, the audit committee has reviewed the risk management and internal control systems of the Group.

Remuneration Committee

The Company established a remuneration committee with written terms of reference in compliance with the Listing Rules.

The remuneration committee currently comprises two independent non-executive Directors, namely Mr. Meng Likun (Chairman) and Mr. Ge Xinjian and one executive Director, namely Mr. Leung Hongying Li Ziwei.

Nomination Committee

The Company established a nomination committee with written terms of reference in compliance with the CG Code.

The nomination committee currently comprises one executive Director, namely Mr. Li Yanjun (Chairman) and two independent non-executive Directors, namely Mr. Meng Likun and Mr. Kong Chi Mo.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the year ended 31 December 2017.

COMPLIANCE OF THE CORPORATE GOVERNANCE CODE

As a listed company on the main board of the Stock Exchange, the Company is committed to maintaining high level of corporate governance. Throughout the year ended 31 December 2017, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Please refer to "Corporate Governance Report" in this annual report for details.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Throughout the year ended 31 December 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the amount of public float as required under the Listing Rules as at the date of this annual report.

CHANGE IN DIRECTORS' INFORMATION

As of the date of this annual report, there was no information of the Company in relation to Directors required to be disclosed pursuant to Rule 13.51B of the Listing Rules.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognizes the significance of good relationship with employees, customers and suppliers to the long-term development of the Group's business.

As to the employees' relationship, the Group has taken various measures to improve employees' benefit, provided training opportunities for key position and adopted a performance management system that enhances employees' career development.

As to the relationship with customers and suppliers, the Group has always adhered to business principles with integrity and bona fide. As at the date of this report, the Group did not have any disputes with major customers and suppliers, and contracts with them were all entered into and performed on mutually beneficial basis.

RETIREMENT AND EMPLOYEES' BENEFIT PLAN

Detailed information on the retirement and employees' benefit plan of the Company is provided in note 5(b) to the consolidated financial statements.

ENVIRONMENTAL POLICIES AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognizes that proper adoption of environmental policies is essential to the sustainability of corporate growth, and has established specific department to supervise the compliance of the Group with environmental laws and regulations. During the daily operations, the Group has paid close attention to the latest development of environmental protection laws and regulations to ensure that the Group's environmental policies are in line with the legal standard in order to contribute to an environment-friendly society.

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations, including but not limited to those which have significant impact on the Group, such as the Listing Rules and the International Financial Reporting Standards. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time. As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. For further details, please refer to the "Environmental, Social and Governance Report" of this annual report.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2017, the Group has not been involved in any significant legal proceedings or arbitration. To the knowledge of the Directors, there are no significant legal proceedings or claims pending or threatened against the Group.

AUDITOR

The Company appointed KPMG as auditor of the Company for the year ended 31 December 2017. A resolution will be proposed for approval by the Shareholders at the 2018 AGM to re-appoint KPMG as auditor of the Company.

By order of the Board

Mr. Li Yanjun
Chairman of the Board

27 March 2018

CORPORATE GOVERNANCE REPORT

The board of Directors (the "Board") of Aowei Holding Limited (the "Company") is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and to enhance the Group's performance. The Group believes that operating its businesses in an open and responsible manner and following good corporate governance practices serve its long-term interests and those of its shareholders.

During the year, the Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Board as a whole is responsible for performing the corporate governance duties and ensuring compliance with the Listing Rules. The Board reviews at least annually the corporate governance practices of the Company to ensure its continuous compliance with the CG Code, and make appropriate changes if considered necessary.

Set out below is the detailed discussion of the corporate governance practices adopted and observed by the Company during the year ended 31 December 2017 (the "Reporting Period").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the year ended 31 December 2017.

BOARD OF DIRECTORS

The Board is collectively responsible for leading and overseeing the Group's business with the objective of enhancing Shareholders' value. The Board currently comprises a combination of executive Directors and independent non-executive Directors. At least one of the independent non-executive Directors possesses appropriate professional qualifications (or accounting or related financial management expertise) as required by the Listing Rules. This provides a healthy professional relationship between the Board and the management to shape the strategic process. The management shall provide members of the Board and specialized committees under the Board with appropriate and sufficient information in a timely manner so as to update them with the latest developments of the Group and to better facilitate the discharge of their duties. The management team is accountable to the Board, executing the strategies and plans formulated by the Board, and making decisions in relation to the day-to-day operation of the Group. The management reports monthly to the Board on the operation and financial performance of the Group. The Board is also supported by other key committees to independently supervise management. These key committees are the audit committee, remuneration committee and nomination committee and are comprised mainly of independent non-executive Directors. As at the date of this annual report, the composition and committees of the Board were as follows:

Board member	Audit committee	Remuneration committee	Nomination committee
Executive Directors			
Li Yanjun *(Chairman)*	–	–	C
Leung Hongying Li Ziwei *(Vice Chairman)*	–	M	–
Huang Kai *(Chief Executive Officer)*	–	–	–
Sun Jianhua *(Chief Financial Officer)*	–	–	–
Li Jinsheng	–	–	–
Tu Quanping	–	–	–
Independent non-executive Directors			
Ge Xinjian	C	M	–
Meng Likun	M	C	M
Kong Chi Mo	M	–	M

Note:

C: Chairman

M: Member

For the year ended 31 December 2017, the Board consisted of nine Directors including six executive Directors and three non-executive Directors, of which three Directors (one third of the Board) are independent non-executive Directors. The number of independent non-executive Directors complied with the requirement of Rule 3.10(A) of the Listing Rules. Each independent non-executive Director has given an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Non-executive Directors (including independent non-executive Directors) are appointed for a specific term (no more than three years) and subject to retirement by rotation. None of the independent non-executive Directors has served the Company for more than nine years.

The biographical details of the Directors are set out in the section headed "Biographies of Directors and Senior Management" of this annual report. Mr. Li Yanjun and Mr. Leung Hongying Li Ziwei are parent-child relationship. Save as disclosed above, none of the members of the Board has any financial, business or family relationships or any relationships in other material aspects with other members.

The key roles of the Board are:

- to guide the overall development, corporate strategies and directions of the Group, approve the Board's policies, strategies and financial objectives of the Group and monitor the performance of management;
- to ensure effective management leadership of the highest quality and integrity;
- to approve major funding proposal and investments; and
- to provide overall insight in the proper conduct of the Group's business.

During the year, the Company held four regular Board meetings for reviewing and approving the financial and operating performance and considering the overall strategies and policies of the Group and the proposed change of company name. Sufficient notice (at least 14 days notice of regular Board Meetings) convening the Board meeting was dispatched to the Directors setting out the matters to be discussed. All Directors were given an opportunity to include matters in the agenda for the Board meeting and had access to the company secretary of the Company (the "Company Secretary") to ensure that all board procedures and all applicable rules and regulations were followed. The Board also enabled the Directors to seek independent professional advice at the Company's expense in appropriate circumstances. At the meetings, the Directors were provided with the relevant documents to be discussed and approved. The Company Secretary was responsible for keeping minutes for the Board meetings.

During the Reporting Period, the Company held the annual general meeting and extraordinary general meeting on 29 May 2017 and 24 November 2017, respectively. The following is the attendance record of the meetings held by the Board, audit committee, remuneration committee, nomination committee and the Shareholders for the year ended 31 December 2017:

	Number of meeting attended/Number of meeting held					
Name of Directors	Board meeting	Audit committee meeting	Remuneration committee meeting	Nomination committee meeting	Annual general meeting	Extraordinary general meeting
Li Yanjun	4/4	–	–	1/1	1/1	1/1
Leung Hongying Li Ziwei	4/4	–	1/1	–	1/1	1/1
Huang Kai	4/4	–	–	–	1/1	1/1
Sun Jianhua	4/4	–	–	–	1/1	1/1
Li Jinsheng	4/4	–	–	–	1/1	1/1
Tu Quanping	4/4	–	–	–	1/1	1/1
Ge Xinjian	4/4	2/2	1/1	–	1/1	1/1
Meng Likun	4/4	2/2	1/1	1/1	1/1	1/1
Kong Chi Mo	4/4	2/2	–	1/1	1/1	1/1

DIRECTORS' TRAINING

According to code provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

All Directors have been provided with training on their duties and responsibilities as a director of a listed company and the compliance issues under the Listing Rules. The Company continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure their compliance and enhance their awareness of good corporate governance practices.

Directors had provided the Company with their respective training records pursuant to the CG Code. During the Reporting Period, all Directors have participated in appropriate continuous professional development by ways of attending training or reading materials relevant to the Company's business or to Directors' duties and responsibilities.

The records of the training attended by the Directors are set out as follows:

Name	Position	Types of Training
Li Yanjun	Chairman and Executive Director	B
Leung Hongying Li Ziwei	Vice Chairman and Executive Director	B
Huang Kai	Executive Director and Chief Executive Officer	B
Sun Jianhua	Executive Director and Chief Financial Officer	B
Li Jinsheng	Executive Director	B
Tu Quanping	Executive Director	B
Ge Xinjian	Independent non-executive Director	B
Meng Likun	Independent non-executive Director	B
Kong Chi Mo	Independent non-executive Director	A, B

A: attending seminars and/or conferences and/or forums relating to directors' duties or other relevant topics

B: reading newspaper, journals and updates relating to the economy, general business or directors' duties, etc.

CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

The positions of the chairman of the Board and the chief executive officer of the Company are held by different individuals in order to ensure the independence and accountability of their respective duties and a balanced distribution of power and authority between them. Mr. Li Yanjun is the chairman of the Board and is responsible for the management and effective operation of the Board, ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner. Mr. Huang Kai is the chief executive officer of the Company and is responsible for the daily operational activities of the Group and accountable to the Board for the overall operations of the Group. During the Reporting Period, the chairman of the Board held one meeting with the non-executive Directors (including independent non-executive Directors) in the absence of the executive Directors.

The chairman chairs the Board meetings and briefs the Board members on the issues discussed at the Board meetings. The chairman also ensures that the Board members work together with the management with the capability and authority to engage management in constructive views on various matters, including strategic issues and business planning processes.

APPOINTMENT AND RE-ELECTION OF THE DIRECTORS

According to the Articles, at each annual general meeting, one-third of the Directors are subject to retirement by rotation or, if the number is not a multiple of three, then the number nearest to but not less than one-third shall retire from the office and shall be eligible for re-election. The Directors to be retired by rotation shall be those who have been longest in office since their last appointment or re-election. Every Director shall be subject to retirement at an annual general meeting at least once every three years. Any other appointment, resignation, removal or re-designation of Director will be timely disclosed to the Shareholders by announcement and shall include in such announcement, the reasons given by the Director for his resignation.

The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Company's business.

COMPANY SECRETARIES

For the year ended 31 December 2017, Mr. Meng Ziheng and Ms. Kwong Yin Ping, Yvonne were the joint company secretaries of the Company. Mr. Meng Ziheng and Ms. Kwong Yin Ping, Yvonne have taken no less than 15 hours of relevant professional training. Ms. Kwong's primary contact in the Company is Mr. Meng.

The joint company secretaries of the Company shall be responsible for ensuring good information flow among members of the Board and that the policies and procedures of the Board are followed. The joint company secretaries make recommendations on governance matters to the Board through the chairman of the Board and the chief executive officer, and shall also arrange for induction training and professional development of the Directors.

SPECIALIZED COMMITTEES UNDER THE BOARD

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee to provide the Board with specialized decision-making support. The Company has established and updated systematically the terms of reference of each of the committees as required by the Listing Rules as well as its amendment, which clearly set out duties of each of the committees.

AUDIT COMMITTEE

The audit committee of the Board was established with effect from the listing date in compliance with Rule 3.21 of the Listing Rules. It is responsible for ensuring that the Company has an effective financial reporting and internal control systems in compliance with the Listing Rules, overseeing the integrity of the financial statements of the Company (including the review of the quarterly, half-yearly and annual results and internal control system), selecting and assessing the independence and qualifications of the Company's external auditor and ensuring effective communication between the Directors and external auditor. The audit committee consists of three members (including all independent non-executive Directors), namely, Mr. Ge Xinjian (Chairman of the committee), Mr. Meng Likun and Mr. Kong Chi Mo, who possesses the appropriate professional qualification or accounting or related financial management expertise. The written terms of reference of this committee has been made available on the Company's website at www.aoweiholding.com and on the website of the Stock Exchange.

The audit committee held two physical meetings during the year ended 31 December 2017. At these two meetings, the audit committee discussed and reviewed, among other things, (i) the accuracy and fairness of Group's annual results for the year ended 31 December 2016 and interim results for the six months ended 30 June 2017; and (ii) the effectiveness of the Group's internal control systems.

The Group established an independent internal audit function directly reporting to the audit committee. The internal audit personnel will attend the audit committee meetings and report on internal audit matters annually. If there is any material internal control defects, the internal audit personnel directly reports to the audit committee without limitation. The audit committee assists the Board in monitoring the risk exposures, the design and operating effectiveness of the relevant risk management and internal control systems. The audit committee will report to the Board after properly reviewing the effectiveness of the Group's risk management and internal control systems.

During the year ended 31 December 2017, the audit committee has reviewed the risk management and internal control systems and the effectiveness of the Company's internal audit function. Details of the risk management and internal control of the Group are set out on pages 62 to 63 of this report.

REMUNERATION COMMITTEE

The remuneration committee of the Board was established with effect from the listing date in accordance with the code provisions of the CG Code. It is responsible for assisting the Board in determining the policy and structure for the remuneration of Directors and senior management, assessing the performance of executive directors, reviewing incentive schemes and the terms of the Directors' service contracts and fixing the remuneration packages for executive Directors and senior management. The remuneration committee consists of three members (including one executive Director and two independent non-executive Directors), namely, Mr. Meng Likun (Chairman of the committee), Mr. Ge Xinjian and Mr. Leung Hongying Li Ziwei (also known as Li Ziwei). The written terms of reference of this committee has been made available on the Company's website at www.aoweiholding.com and on the website of the Stock Exchange.

Under the remuneration policy of our Company, the Remuneration Committee will make recommendations to the Board on the amount of remuneration payable to our Directors and the senior management, by reference to, among other things, the market level of salaries paid by comparable companies, the respective responsibilities, tenure, commitment, responsibilities and performance of our Directors and the senior management. The Remuneration Committee held one physical meeting during the year ended 31 December 2017. At the meeting, the Remuneration Committee discussed and reviewed, among other things, remuneration for executive directors.

The remuneration payable to the senior management (comprising Directors) during the year ended 31 December 2017 by band is set out below:

Name of Director	Remuneration band RMB	Director's fee %	Salaries, allowances and benefits in kind %	Pension scheme contributions %	Total %
Executive Directors					
Mr. Li Yanjun	1,000,000 - 2,000,000	0	100	–	100
Mr. Leung Hongying Li Ziwei (also known as Li Ziwei)	500,000 - 1,000,000	0	98.1	1.9	100
Mr. Huang Kai	0 - 500,000	0	100	–	100
Mr. Sun Jianhua	0 - 500,000	0	79.7	20.3	100
Mr. Li Jinsheng	500,000 - 1,000,000	0	98.9	1.1	100
Mr. Tu Quanping	500,000 - 1,000,000	0	98.8	1.2	100
Independent non-executive Directors					
Mr. Ge Xinjian	0 - 500,000	100	–	–	100
Mr. Meng Likun	0 - 500,000	100	–	–	100
Mr. Kong Chi Mo	0 - 500,000	100	–	–	100

Name of senior management	Remuneration band RMB	Director's fee %	Salaries, allowances and benefits in kind %	Pension scheme contributions %	Total %
Mr. Gao Changquan	0 – 500,000	–	98.3	1.7	100
Mr. Li Shaoshun	0 – 500,000	–	100	0	100
Mr. Li Dongfeng	500,000 – 1,000,000	–	99.0	1.0	100
Mr. Jin Jiangsheng	500,000 – 1,000,000	–	98.9	1.1	100

NOMINATION COMMITTEE

The Board has established a nomination committee with effect from the listing date, in compliance with the code provisions of the CG Code, responsible for determining the policy for the nomination of directors, identifying and recommending to the Board appropriate candidates to serve as Directors, evaluating the structure and composition of the Board and developing, recommending to the Board and monitoring nomination guidelines for the Company. The nomination committee consists of three members (including one executive Director and two independent non-executive Directors), namely, Mr. Li Yanjun (Chairman of the committee), Mr. Meng Likun and Mr. Kong Chi Mo. The written terms of reference of this committee has been made available on the Company's website at www.aoweiholding.com and on the website of the Stock Exchange.

The Board, through the nomination committee, adopts a Board diversity policy setting out the approach to diversify members of the Board. The Company seeks to achieve diversity of the Board through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments are based on meritocracy, and candidates are considered against objective criteria, having due regard for the benefits of diversity on the Board.

The nomination committee held one physical meeting during the year ended 31 December 2017. At the meeting, the nomination committee discussed and reviewed, among other things, (i) the existing structure, composition and diversity of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the Group's business and that it is in compliance with the requirements under the Listing Rules; (ii) the recommendation on re-election of retiring Directors at the forthcoming annual general meeting, and (iii) the independence of the independent non-executive directors.

CORPORATE GOVERNANCE FUNCTIONS

The Board is the highest authority of the Group on corporate governance, whose main responsibilities include:

- developing and reviewing the Company's policies and practices on corporate governance;
- reviewing and monitoring the training and continuous professional development of Directors and senior management;
- reviewing and monitoring the Group's policies and practices in compliance with legal and regulatory requirements;
- developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and the Directors; and
- reviewing the Group's compliance with the CG Code and disclosure in the Corporate Governance Report. The Board had discussed and reviewed the aforesaid works at the Board meetings held during the Reporting Period.

REMUNERATION OF AUDITOR

For the year ended 31 December 2017, the Group's external auditor, KPMG, provided annual audit services to the Company. For the year ended 31 December 2017, the total fee paid/payable in respect of audit and non-audit services provided by the Group's external auditor is set out below:

	RMB
Annual audit services (excluding taxation and miscellaneous fees)	3,060,000
Non-audit services (specific audit service and consultation service for 2016 ESG Report)	470,000
Total	3,530,000

The audit committee is responsible for making recommendation to the Board as to the appointment, re-appointment and removal of the external auditor, which is subject to the approval by the Board and at the general meetings of the Company by the Shareholders.

DIRECTORS AND AUDITOR'S RESPONSIBILITY FOR PREPARATION OF THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for preparing the financial statements for the year ended 31 December 2017, which gave a true and fair view of the state of affairs, the results and cash flows of the Group for that year. The Company allocated sufficient resources to prepare the audited accounts. Senior management was required to present and explain the financial reporting and matters that materially affected or may have material impact on the financial performance and operations of the Company to the Audit Committee and the Board and to respond to the queries and concerns raised by the Audit Committee and the Board to their trust. The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the financial statements included appropriate disclosure made in accordance with the Listing Rules and the Companies Ordinance. The responsibility of the external auditor of the Company for preparing the financial statements of the Group was set out in the "Independent Auditor's Report" of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has overall responsibility for the systems of risk management and internal controls of the Group. The risk management and internal control systems were designed to provide reasonable (but not absolute) assurance against material misstatement or loss, and to manage (but not fully eliminate) the mistakes of the Group's operational systems and the risks of failure to achieve the Group's business objectives. The Audit Committee reviewed the adequacy and effectiveness of the risk management and internal control systems of the Group through active communication and discussion with management, internal audit and external auditor. The results were reported to the Board. The Board had conducted an annual review on the risk management and internal control systems of the Group including financial, operational and compliance controls and risk management and is of the view that the existing risk management and internal control systems of the Group are effective and adequate. The Board has also reviewed the adequacy of resources, qualifications and experience of staff of the internal audit, accounting and financial reporting functions, training and budget.

Under the supervision of the Board, the management of the Group is responsible for designing and implementing the Group's risk management and internal control systems. The Group's business units (e.g., sales department and production department) are responsible for identifying and assessing business risks and develop risk mitigation measures; the functional departments (e.g., compliance department and finance department) are responsible for assisting the business units to improve the risk management and monitoring the effectiveness of risk management; and the internal audit function, assists the Board and the audit committee to review the effectiveness of the Group's risk management and internal control systems.

As and when required, the management convened meetings which were chaired by the senior management with attendants including managers from subsidiaries and department heads from headquarters. The Group's decisions on operations, implementation of investment projects, financial issues, and the updates on risk management and internal control were considered and determined at these meetings. The management convened annual and interim work meetings in order to assign and review works on a yearly and half yearly basis. The meetings have facilitated the organisation, co-ordination, communication and supervision on the commencement and implementation of the Group's various operations, as well as the risk management and internal control systems. The Group has set out following departments and internal controls procedures, including:

- The Company has established an independent accounting department to set out the duties and rights in relation to finance management, accounting and auditing, and assigned the relevant staff to ensure the smoothness of finance and accounting work and the separation of approval, implementation and recording functions, and formulated different systems for finance and accounting as a guarantee for fair execution;

- The Group has established a specialized internal audit department, formulated relevant mechanism, and set up proper internal supervising procedures to ensure the effectiveness of internal supervision and extend its application to all of the Group's subsidiaries. The annual audit report and plan are approved by the Audit Committee;

- The management of the Company provides members of the Board with the latest information of the Group monthly, which sets out the performance, the financial position and prospects and clear assessment of the Group;

- the Company established sensitive information disclosure policy, which specified the information disclosure process, the confidentiality requirements of the undisclosed sensitive information, the confidentiality obligations of the employees of the Group, etc;

- the service contracts of the Directors, the senior management and the employees of the Group specify the confidentiality clauses; and

- the legal advisors of the Company regularly provide relevant trainings to the Board and the senior management.

The Group has established the Information Disclosure Management System, the Administrative Rules Governing Related Party Transactions, and the Inside Information Disclosure System which stipulate the relevant procedures for processing the inside information. Before inside information is disclosed to the public, the Board ensures that such inside information is kept confidential. The Board regularly evaluates the effectiveness of internal control.

SIGNIFICANT CHANGE TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

For the year ended 31 December 2017, the Company did not make any significant changes to the Memorandum and Articles of Association of the Company.

THE RIGHTS OF SHAREHOLDERS

PROCEDURES FOR CONVENING OF AN EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS AT GENERAL MEETING

In accordance with Article 12.3 of the Articles of Association, the Board may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one or more member of the Company which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one- tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

PROCEDURES FOR SHAREHOLDERS TO PUT ENQUIRIES TO THE BOARD

Shareholders should direct their enquiries about their shareholdings to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. In respect of other enquiries, Shareholders may put forward enquiries to the Board through the Company's principal place of business in Hong Kong which will direct the enquiries to the Board for handling.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

In 2017, the Company continued to communicate with Shareholders, investors and analysts in a honest manner. Comprehensive corporation information has been disclosed in due course and necessary data for valuation purpose has been fully provided by the Company so as to help capital market to understand its investment value. The main communication channels with the Shareholders include:

ANNUAL GENERAL MEETINGS

The annual general meeting is an important discussion platform for Shareholders to participate in, facilitating the communications between the management of the Company and the Shareholders. The annual general meeting is held once a year, being accessible to all Shareholders. The Directors answer any questions put by the Shareholders at the annual general meeting, being attended by the external auditor and the Company Secretary. All matters proposed to Shareholders for approval shall be submitted in separate resolutions and resolved by way of poll at the annual general meeting. The procedures of conducting a poll will be explained in details to Shareholders and the voting results will be set out on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.aoweiholding.com).

ANNUAL REPORTS, INTERIM REPORTS, ANNOUNCEMENTS AND CIRCULARS

The Company issues its annual reports and interim reports after publishing the annual results and the interim results in March and August every year, respectively, so as to periodically review the development of the Group as well as to update its Shareholders with its latest business information and market trends. In addition, the Company will inform the Shareholders through announcements regarding any major event or price-sensitive information on a timely manner. For any matter requires the approval of the Shareholders, the Company will hold an extraordinary general meeting according to the requirements of the Stock Exchange and issue a circular prior to the specific date of the meeting, allowing the Shareholders to have sufficient time to learn more about the matters for making voting decisions. All annual reports, interim reports, announcements and circulars will be uploaded to the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.aoweiholding.com).

THE COMPANY'S WEBSITE

The Company's website offers timely access to the Group's press releases and other business information. Through its website, the Company provides Shareholders with the electronic version of the financial reports, the latest slide presentations, as well as up-to-date news about the Group's business, announcements and general information, etc. To make contributions to environmental protection and maintain effective communication with Shareholders, the Group encourages all Shareholders to browse the Company's corporate communication files on the Company's website

INVESTOR CONTACTS AND ENQUIRIES

The Group has a dedicated team to maintain contact with investors and handles Shareholders' enquiries. Should investors have any enquiries, please contact the Company's Investor Relations Department via email at ir@aow.com.cn.

The Company will ensure that the information of the work on investor relations is disclosed in a timely and accurate manner, and to react to the capital market effectively and smoothly. This can keep helping the capital market to have a better understanding of its development strategies and operating conditions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

About this Report

The report of the year (the "Report") covers Aowei Holding Limited (the "Company") and its subsidiaries (collectively, the "Group") with its details of the subject scope set out in the shareholding structure diagram in the Corporate Information. The time range of the Report, is the financial year 2017, from 1 January 2017 to 31 December 2017 (the "Reporting Period"), and is consistent with that of the annual report of the Group.

The board (the "Board") and the directors (the "Directors") of the Company had confirmed that the Report does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.

The Report has been formulated in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") as set out in Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). General disclosures are made based on the "comply or explain" provision of the ESG Reporting Guide. The 2018 report is planned to be deepened to increase coverage of key performance indicators. In line with these standards, key stakeholders, including our operation departments, management and independent third parties were engaged in the material assessment and identification of the relevant and important environmental, social and governance policies to the Group for incorporation in the Report.

The key indicators in relation to safety and environment issues of the Company are counted and calculated based on the regulations or industry standards of the PRC. The Group is committed to promoting sustainable development, which is extremely important to create long-term value for the Group's shareholders, clients, employees, other stakeholders, as well as general public. The core content of the Group's environment, social and governance management includes emission management, resources utilization management and employee's health and safety management. We are committed to implement the environment and safety impact assessments in our production process comprehensively through increasingly improving our managing systems and measures, aiming to minimize the impact on environment and to ensure achieving zero fatality in production for employees. Also, the Group will fulfill our corporate social responsibility through multiple measures while sustaining the business development and providing better returns to the shareholders of the Company (the"Shareholders").

Health, Safety, Environmental Protection and Community Organization of the Group

Operating subsidiaries of the Group have set up the multi-level health, safety, environmental protection and community organization according to the practical situation, including establishing general manager responsibility system, under which a designated deputy manager will be appointed to, with the support of dedicated management organizations, manage issues regarding health, safety, environmental protection and community within each company, and developing a number of management systems to ensure definite responsibilities, strict implementation and effective supervision.

Stakeholders' Involvement

The Company is committed to creating a win-win community for all parties, with an aim to promote the harmony and mutual prosperity between the Company and the associated organizations and individuals including investors, employees, customers, partners, communities, the public and governments (referred to as the "Stakeholders"), thereby achieving the maximum of social integrated benefits (including the maximum of enterprise earnings). Therefore, various channels are offered to the Stakeholders for participating in the operation of the Company, as well as understanding and supervising our operation conditions.

The Company's Stakeholders' Involvement for the year ended 31 December 2017

Stakeholders	Main goals and focuses	Ways and channels of communication and involvement	The Company's initiatives
Shareholders and investors	To maintain steady operation, gain profits, protect shareholders' interests and ensure information disclosure is true, accurate and timely.	General meetings, investor information sessions and onsite visits, roadshows, information disclosure (including financial statements) and company contact details.	Issued notices of general meeting and proposed resolutions according to regulations, disclosed company's information. Carried out different forms of investor activities with an aim to improve investors' recognition, including results briefing and investor relations activity. Disclosed company contact details on website and in reports and ensured all communication channels available and effective. For detail of communication policies with Shareholders, please refer to the Company's website: www.aoweiholding.com.
Customers	To assure product quality and quantity and maintain long-term and stable cooperation.	Regular visits and daily communication.	Formulates comprehensive management systems in respect of quality and sales, strengthening the quality examination and sales management of products.
Governments	To operate and pay taxes according to law, ensure production safety and fulfill social responsibilities.	On-site inspections and checks, research and discussion through work conferences, work reports preparation and submission for approval.	Operated, managed and paid taxes according to laws and regulations, strengthened safety management; accepted the government's supervision, inspection and evaluation, and actively undertook social responsibilities.
Employees	To protect their basic rights, offer reasonable welfare and remuneration, provide healthy working environment and development space, ensure occupational health and safety and help to realize their self-value.	Communication channels between employees and the management, suggestion boxes, employees' activities, training and learning activities.	Provided a healthy and safe working environment; developed a fair mechanism for promotion; set up safety education and training.

The Company's Stakeholders' Involvement for the year ended 31 December 2017			
Stakeholders	**Main goals and focuses**	**Ways and channels of communication and involvement**	**The Company's initiatives**
Communities and the public	To create jobs, promote community development, protect ecological environment and provide compensation and assistance.	Exchange visits between villagers and the Company, co-sponsored community activities, charitable assistance, volunteer service and community building activities.	Committed to establishing good relationship with communities, gave priority to local people seeking jobs from the Company so as to promote community building and development, protected the communities' ecological environment, and provided timely compensation and assistance, provided volunteer service, kept communication channels open between the Company and the communities and villagers, co-sponsored community activities to promote the building up of harmonious communities.
Partners	To achieve fairness, justice and openness and maintain our commitment.	Tenders meeting, fairs and daily communication.	Invited tenders fairly to select best partners, performed contracts according to agreements, enhanced daily communication, and established long-term cooperation with quality suppliers and contractors.
Banks	To repay loans on schedule, monitor operating conditions and risks and operate with honesty and credibility.	Work conferences, on-site visits, post-loan tracking and daily communication.	Repaid loans with interests on schedule by instalment, cooperative to the banks' review and supervision on loans.
Peers	To stick to fair play, cooperate to develop, share technologies and experiences and promote development of the industry.	Seminars, exchange visits, negotiations and meetings within industry organizations.	Stuck to fair play, cooperated with peers to realize win-win, shared experiences and attended industry seminars so as to promote sustainable development of the industry.
Market regulators	To comply with regulatory requirements, ensure compliant operation and timely information disclosure and reporting.	Consulting, information disclosure, reporting and filing.	Complied with regulatory requirements in a strict manner, disclosed and reported true information in a timely and accurate manner according to law.

Minutes of Stakeholders' Involvement for the year ended 31 December 2017

1. Shareholders and investors

The Company regularly carried out communication with the financial sector including analysts, fund managers and other investors, and also encouraged the shareholders to attend and vote at the general meetings, either in person or by proxy.

Details on shareholder communication policy are available on the Company's website (www.aoweiholding.com).

2. Customers

The Company is located in close proximity to its key customers, which allows it to connect with customers closely through everyday communications in various forms like phone calls, emails, on-site exchanges and visits. In the meantime, our iron ore business has established dedicated offices in the plant area of its key customers to facilitate direct and instant communications with them, which is beneficial to our stable cooperation for the long run.

3. Partners

The Company and suppliers held meetings to discuss ways to enhance customer participation and share win-win strategies. The Group and its member companies attached emphasis on compliance with international and local laws and regulations, and required the suppliers to abide by the regulations based on the UN Global Compact, including non-discriminatory hiring and employment practices, a safe and healthy workplace, compliance with regulations on environmental protection and prohibition of child labour.

4. Governments

During the year ended 31 December 2017, the Group accepted 22 times of inspection, examination and research from government departments, pertaining to the safety of production of mines, processing plants and tailings reservoir and supervision and guidance on flood prevention. The Company took proactive measures to act on advice from government departments and gave our feedback in due course after such inspection, examination or research.

5. Employee appeal

For the year ended 31 December 2017, employees and staff association of the Group did not raise any appeals in relation to remuneration packages, holidays, working and living environment, health and safety security, training and economic assistance and other aspects.

6. Communities and the public

Please refer to the section headed "Community Participation" of this report.

7. Banks/financial institutions

For the year ended 31 December 2017, the Group held 5 business meetings with a total of 12 representatives from 5 banks and financial institutions, who had carried out 5 site visits to the mines. The Company actively cooperated with the banks and financial institutions in performing follow-ups on the loans including follow-up phone calls, visits, provision of information, site visits to mines, enquiry and other forms, as well as replied their questions promptly and provided information and data as required.

8. Industry peers

For the year ended 31 December 2017, the Company actively attended various meetings within the mining industry to reinforce its communications with peers, share its experience, gain insights into industrial dynamics and trends, drive the sustainable development of the industry and promote the Company, and invite industry peers to visit the Company.

9. Market regulators

During the year ended 31 December 2017, the Group received 5 letters in total in relation to the Group from the Hong Kong Stock Exchange and the SFC.

Health and Safety

Considering safe mine as one of its purposes, the Group puts particular emphasis on health and safety, establishes specific bodies and personnel, builds up systems and operation regulation, and strengthens the awareness of health and safety as well as guarantees safe production by various ways such as capital protection, technical upgrade, monitoring and assessment. Also, the Group earnestly adheres to the laws, regulation, standards and norms under the Prevention and Control of Occupational Diseases Law of the PRC (《中華人民共和國職業病防治法》), seriously fulfils responsibilities as an entity, persists in the principle of prevention to protect the health and related interests of staff members, improves production and operation environment, and performs well in occupational health works, so that the Group can facilitate its sustainable development.

For the year ended 31 December 2017, the Group continued to enhance management and control over safety and health risks, and achieved the annual target of zero death with the accident rate keeping at a reasonable level.

Breakdown of accidents incurred by the Group Production Safety Indicators	Times	Description	Lost days
Pollution accidents	0	–	–
Fire accidents	0	–	–
Minor injuries	0	–	–
Serious injuries	0	–	–
Deaths	0	–	–

Note: The accident data in the table was calculated according to the standard of local government.

The Group has adopted the following occupational health and safety measures as well as the relevant implementation and monitoring approaches, so as to maintain a healthy and safe working environment.

The health and safety working organizations at all levels of the Group from the Board to the production workshops at each mine are responsible for the implementation and monitoring of health and safety work, constituting a multi-level health and safety management systems and organizational structure as well as a comprehensive fleet of competent personnel.

Systems and procedures

The Group has developed and strictly implemented several health and production safety management systems, position responsibility systems and operating procedures, so as to institutionalize health and safety management, standardize operating procedures and clarify responsibilities.

For the year ended 31 December 2017, in order to clarify safety production responsibility and enhance the safety production reward and punishment mechanism, each of the mines signed the Letter of Commitment on Safety Production Objective at all levels to strictly implement various safety production regulations, standardize group management and lay a foundation for safety; commence safety check and diagnosis on a regular basis, strengthen corrective measures, and provide supervision for implementation, in order to eliminate hidden perils; seriously implement induction training for licensed safety management personnel and specific operators, and enhance occupational hygiene management works and safety management for external engaged units; summon all employees to organise and commence emergency drills and awareness educational campaigns to enhance emergency management levels and emergency handling abilities.

In order to set up occupational health archives, the Group requires staff members to conduct an occupational health check in the local quarantine stations before and during employment. The Group summons all employees to receive occupational health training every year for enhancing their prevention awareness. The occupational health check and occupational hazards are monitored regularly at the operation workplace. Diagnosis and troubleshooting for hidden perils are in place, whereas occupational health protection facilities are improved and equipped with necessary labour protection products.

Awareness

In order to enhance the employees' health and safety awareness, the Group organises trainings every year, holds regular safety work meetings, reminds employees of safety before work every day, promotes safety activities month and safety lectures, and sets up safe and healthy work bulletin, safety warning signs, banners and slogans, etc.

Our rates of "three-levels" safety education training for newly-recruited employees and all employees, attendance with special operation certificate, implementation of safety instructions and rectification of accident risks all have reached 100%.

For the year ended 31 December 2017, 700 employees have received safety education (internal), and 15 safety managers and 40 employees for special operation were trained with corresponding courses. Such trainings intensified the professional safety education and imbedded safety awareness into the mind of employees.

Technical measures

The Group protects the employees' health and safety through the adoption of effective technologies, measures, equipments and other means.

The Company provides labour protection appliances like safety helmet, safety shoes, reflective vest, protective goggles, earplugs, mask, gas mask, uniform for special purpose, dust mask and acid-proof gloves, etc. to the staff, and appointed safety officer to supervise and check the using and wearing of such labour protection appliances. The Company also equips fire-fighting equipment in flammable sites, and constructs security fences along the roads for ore transportation to prevent accidents.

All vehicles in the mine have a first aid kit for emergency treatment in case of occurrence of accidents. In addition, all employees use wireless interphone in the whole mining area so as to avoid potential dangers.

Thematic Activities in the Month of Production Safety

The country's 16th production safety month was held as scheduled in June 2017. By focusing on the theme of "enhancing enterprises' awareness of safety development and improving overall safety quality", the Group organised thematic activities in the month of production safety.

In order to give guidance on the organization of activities, steering groups have been established by the Company, while each mine has also set up the leading group led by their respective general manager, and corresponding activity plans have been formulated.

During the Reporting Period, great efforts were made by each mine to eliminate potential hazards at the working sites. A total of 58 potential hazards were eliminated, which have been rectified in June with a rectification rate of 100%.

In the month of production safety, each mine strived to cultivate a strong atmosphere of production safety by means of putting up posters, hanging banners and organizing employees to watch the Warning Educational Film for Typical Accidents of Non-coal Mines (《非煤礦山典型事故案例警示教育片》), in order to instill the theme of "enhancing enterprises' awareness of safety development and improving overall safety quality".

Supervision and Assessment

The Group develops and implements a number of supervision, inspection and assessment systems, conducts regular and unscheduled inspections and assessments, including quarterly, monthly, weekly, daily, occasional and mutual safety inspections, so as to timely detect and effectively rectify all kinds of safety risks. The Company keeps controlling major hazards such as explosives magazines, oil storage and tailing ponds, monitors safety information of all locations of mines (including mining yards, processing plants, workshops, sedimentation tanks, waste dumps, topsoil, etc.), and performs safety oversight over contractors. 28 safety inspections have been conducted throughout the year. Operating management department conduct inspection quarterly, production safety division conduct inspection monthly and workshops conduct inspection for 4 times every month. In addition to self-examinations and checks, the Company actively cooperates with government authorities in health and safety inspections, and regularly reports to the government. All mines actively ratified safety risks, which were subject to review by safety inspectors, achieving a rate of safety risk ratification and safety instruction implementation of 100%.

The Group continues to carry out strict safety production responsibility assessment. The Group has implemented the "one-vote veto safety system". The effectiveness of safety production is linked to individual economic benefits, promotion and appraisals, and the Group strictly implements the provisions of reward and punishment. For the year ended 31 December 2017, the Group has paid RMB395,582 for the safety assessment reward, with no fine imposed against behaviors violating the safety regulations throughout the year.

Fund Insurance

The Group ensures the fund investment in health and safety and sets aside safety measure fees exclusively for health and safety protection purpose. In 2017, the actual investment in safety measures fees amounted to RMB5.2 million.

Emergency response drill

For the year ended 31 December 2017, the Group organis\ed 6 emergency response drills in accordance with the relevant regulations. Through emergency response drills, each of the mining subsidiaries attained rewarding outcome and all staff gained first hand experienced about emergency respond and rescue as to accidents, which upgraded emergency handling and joint coordination mechanism and forged contingency plans in a more targeted and maneuverable direction.

Emergency response drill of the Group during the year ended 31 December 2017

Mines	Names of drills	Date	Number of participants
Jiheng Mining	Drills as to emergency rescue plans for landslide and debris flow	28 May 2017	30
	Drills as to on-site treatment of falling accidents	28 May 2017	20
	Drills as to emergency rescue plans for floods overtopping in tailings reservoir	2 June 2017	30
Jingyuancheng Mining	Drills as to on-site treatment of vehicle accidents	20 April 2017	20
	Drills as to emergency rescue plans for landslide and debris flow	28 May 2017	50
	Drills as to emergency rescue plans for floods overtopping in tailings reservoir	4 June 2017	30

Employment and labour practices

The Group strictly follows the laws and regulations related to the Labour Law (勞動法) and the Labour Contract Law (勞動合同法), and formulates *the Regulations on labour Management* (勞動用工管理制度). The Group's employment and recruitment processes are highly transparent. Decision-making is rigorous and fact-based.

The Group bases salaries on the principle of fairness and ensures that wages are no lower than the minimum wage requirements. Wages in related markets are also referenced to provide attractive compensation. The Group offers a variety of allowances to qualified employees and provides staff members with retirement protection plans as stipulated by laws and regulations.

The Group welcomes diversity in its staff members. Regardless of ethnicity, religion, gender or age, all people receive equal employment opportunity, including employment decisions such as recruitment, development, promotion, training etc..

The Group conducts open recruitment in the society according to laws. In order to prevent child labour, candidates must submit photocopies of identity cards and present the originals for verification. We adhere to the principles of "freedom in job choosing" and "two-way choice", utilizing our labour with no traces of treats, suppression, oppression, swindle, or fraud. During the Reporting Period, there had been no circumstances of any violation of the legislation and regulation such as child labour or forced labour.

Breakdown of employees of the Group as at 31 December 2017 (by region)

Region	Number of employees	Percentage	Turnover Staff	Turnover rate[2]
Aborigines[1]	539	60.7%	12	1.3%
Non-aborigines	349	39.3%	17	1.9%

Breakdown of employees of the Group as at 31 December 2017 (by employment category)

Employment category	Number of employees at the end of the year	Percentage of total workforce at the end of the year	Turnover Staff	Turnover rate[2]
Functional management	174	19.6%	5	0.6%
Mining production	150	16.9%	2	0.2%
Dry cleaning production	362	40.8%	19	2.1%
Water concentration production	138	15.5%	1	0.1%
Others	64	7.2%	2	0.2%
Total	888	100.00%	29	3.2%

Breakdown of employees of the Group as at 31 December 2017 (by gender and age)

Gender and age	Number of employees at the end of the year	Percentage of total workforce at the end of the year	Loss of employees	Turnover rate[2]
Male				
35 and under	288	32.4%	18	2.0%
35-50	488	55.0%	6	0.7%
50 and above	86	9.7%	2	0.2%
Sub-total	862	97.1%	26	2.9%
Female				
35 and under	7	0.8%	1	0.1%
35-50	17	1.9%	2	0.2%
50 and above	2	0.2%	–	–
Sub-total	26	2.9%	3	0.3%
Total	888	–	29	3.2%

Notes:

(1) Aborigines: Local residents of Laiyuan county where mines locate.

(2) turnover rate = loss of employees (i.e. the number of regular employees voluntarily resigned) ÷ annual average workforce of the Company (902)

Development and Training

The Group recognises the importance of staff development and training. Being closely related to corporate sustainable development, training can enhance the overall quality of staff members, and enables them to adapt to new requirements as well as improve their capabilities to perform their current duties. It can also help staff members to seize promotion opportunities and realize their own career aspirations in addition to the improvement of the staff's ability and the enhancement of the Group's overall competitiveness. We provide effective trainings for staff members and formulate a clear promotion path to ensure that the staff members are equipped with necessary skills. This also helps the Group to nurture outstanding successors and foster a good learning culture for the Group.

In accordance with the Group's development strategy needs and together with training demands, the human resources department collaborates with various departments to formulate annual training plans. Each unit organises trainings on a regular basis according to the training plans. There will be examinations after the trainings to ensure the effectiveness of the trainings.

Trainings for Directors and Management

The Company places great emphasis on trainings for directors and management, and requires its directors to learn training materials provided by the Stock Exchange. The company secretary shall attend not less than 15 hours of professional training courses every year. In addition, a variety of training programs and seminars have been organised by the Company.

Training for employees

For the year ended 31 December 2017, the Group provided its employees with a variety of targeted trainings. Details on trainings of the Group are set out as below:

Trainings for employees during the year ended 31 December 2017 (by training content)

Name/Type of courses	Brief of course content	Cumulative training hours	Cumulative number of participants	Percentage of cumulative number of participants to annual average number of employees
Induction training training	Induction safety training	6,480	90	10.0%
Professional skills	Training on software and expertise	24	12	1.3%
Professional skills	Skill training for electricians	480	20	2.2%
Professional skills	Training regarding environment protection	5,600	700	77.6%
Professional safety education	Skill training for safety officers	360	15	1.7%
Professional safety education	Emergency response training	11,200	700	77.6%
Professional safety education	Safety skill training for personnel at processing plants	3,600	150	16.6%
Total		27,744	1,687	187.0%

Trainings for employees during the year ended 31 December 2017 (by employee category)

Employee category	Number of Employees trained	Average training hours	Percentage of participants to the annual average number of employees
Senior management	13	80	1.4%
Middle management	50	100	5.5%
General staff	500	123	55.4%
Total	563	120	62.4%

Note: The average of the total workforce of the Group was (902) during the year ended 31 December 2017.

Environmental Protection

Upholding the tenet of "green mines", the Group takes the environmental protection and restoration measures and has made great efforts in reducing the impact of production and operations on the environment by recycling and reducing emissions, striving to build "environment-friendly" mines.

During the Reporting Period, the environmental protection charge of the Group amounted to approximately RMB12.3 million, among which, the pollution charge, dust screen expense, environmental protection facilities operation expense of JiHeng mining were approximately RMB0.7 million, RMB0.41 million and RMB4.1 million, respectively and that of Jingyuan mining were approximately RMB0.5 million, RMB0.3 million and RMB6.3 million, respectively.

Environment and natural resources

The Group has made great efforts in promoting the construction of the mine environment, strives to build modernized ecological mines, and aims to achieve the targets of energy conservation and emission reduction as well as cleaner production and mitigate impacts of production activities on environment by ways of recycling and technology upgrade. Report on environmental impact assessment is prepared for each operating project of the Company which will not commence until such report is reviewed and passed by professional experts, so as to minimize the impact of the operating project on the environment.

To carry out mining activities, the Group needs to occupy part of the land, but after the mining is completed, the Company will restore the land and vegetation through land reclamation and revegetation measures. The Group's mining activities also consume a lot of mineral resources. Therefore, the Company tries to reduce the consumption of mineral resources by improving the rates of resource utilization, extraction and recovery. Meanwhile, the Company keeps discovering new mineral resources through exploration activities, with the aim to increase its mineral reserves.

The Group complies with all environmental protection laws and regulations of each location where the Group operates, takes necessary environmental protection measures, fulfills the responsibility of restoration of mine environment, and prepares and implements the plans for protecting, restoring and managing the mine environment. The restoration of the geological environment at the mine sites goes well as no major geological disasters have occurred in recent years.

Revegetation and reclamation

In order to mitigate the damage of stripping activities to land surface, each mines clearly defines in which area the vegetation will be removed to prevent unnecessary removals, and takes necessary measures to reduce the impact on rare plants.

For the year ended 31 December 2017, the mines took certain measures such as factory district greening and tree planting, with the accumulated area of forest reclamation about 750 acres. Among which, 3,000 Boston ivy were planted in Jiheng mining and Jingyuan mining respectively and 1,200 tree were planted in Jiheng mining and Jingyuan mining, respectively. The above measures of greening and tree planting in mines are of great significance for ecological environment protection since they can gradually resume the ecological environment of the mines.

Emergency plans for unexpected environmental accidents

The Company has formulated emergency plans for unexpected environmental accidents. In case any environmental accident happens, immediate actions can be taken in accordance with the plans, and the Company can immediately report the nature of the accident, investigate and analyze the cause of accident, propose and implement remedial measures, and assess its effectiveness and impacts on the environment with an aim to prevent any environmental accident and the expansion of negative impact.

Use of resources

For mining companies, mineral resources are their foundation to survive and thrive. The Group values and encourages thrifty and efficient use of resources, while preventing waste of resources by enhancing its effort in recycling.

Use of mineral resources

Exploring and processing mineral resources are the core business of the Group. The iron ore business minimizes the mining loss rate and dilution rate and maximizes the processing recovery rate by optimizing its mining methods and processing techniques, strengthening the management of on-site operations, and establishing strict technical standards for mining and processing in light of the actual conditions of each mine to reduce the consumption of mineral resources.

Use of other key resources

Besides mineral resources, other key resources used by the Group include water, electricity, diesel and gasoline. Use of each of these resources and measures for more efficient use of them are summarized below.

Water

Each mine has water recycling system, which pumps water in the tailing dam into the processing plant for recycling use with an aim to reduce production water use. In order to reduce daily water use, the wash basin in the office area is connected with recycled water and most toilets are half flushing.

Water consumption for production by the Group during the year ended 31 December 2017:

Unit: tons	Underground water	Surface water	Total
Jiheng Mining	128,554.2	–	128,554.2
Jingyuancheng Mining	129,289.4	–	129,289.4

Electricity

The Group achieves cost reduction and power saving by transforming the existing electricity system, optimizing production process, adopting cutting-edge production techniques and equipment with low energy consumption and phasing out backward techniques and equipment with high energy consumption; furthermore, the Group actively launches energy saving system to comply with laws, regulations and rules, promotes and implements industry policies, actively organises training for the staff members, to improve their energy saving awareness and skills and enhance the responsibility and initiative for energy saving.

Electricity consumption by each mine of the Group as follows:

	For the year ended 31 December		
Unit: 0000' KWh	2017	2016	% of change
Jiheng Mining	**4,726**	5,404	-12.6%
Jingyuancheng Mining	**8,336**	7,108	17.3%
Total	**13,062**	12,512	4.4%

For the year ended 31 December 2017, the electricity consumption of Jiheng Ming was lower than the corresponding period of last year, which was mainly due to the decreased production of iron ore concentrates as compared with the corresponding period of last year. The electricity consumption of Jingyuancheng Mining increased as compared to the corresponding period of last year. It was mainly due to an increase in the total volume of iron ore to be processed resulting from a higher production and concentration ratio as the grade of mined iron ore decreased and yield of iron ore concentrates remained stable; meanwhile, the application of high pressure grinder equipment and high operation ratio of equipment such as filters for environmental protection further intensified the power consumption.

Diesel

The Group reduces its diesel consumption by preferring diesel-saving equipment, using diesel-powered equipment reasonably, phasing out relevant equipment with high energy consumption and low production, turning off equipment not running for a long time in a timely manner, and preventing spill when refueling. In the meantime, the Group has enhanced the management of diesel purchase, transport, storage and use, in order to prevent any waste, abuse and loss.

Diesel consumption by each mine of the Group as follows:

	For the year ended 31 December		
Unit: Tonnes	**2017**	**2016**	**% of change**
Jiheng Mining	**735.0**	889.4	-17.4%
Jingyuancheng Mining	**1,207.0**	927.0	30.2%
Total	**1,942.9**	1,816.4	6.9%

For the year ended 31 December 2017, the diesel consumption of Jiheng Ming was lower than the corresponding period of last year, which was mainly due to the total stripping volume of mines decreased as compared with the corresponding period of last year. A dramatically higher diesel consumption of Jingyuancheng Mining as compared to the corresponding period of last year was mainly due to our further efforts on the work of rock stripping and the transportation and dumping by vehicle and load carriers.

Gasoline

Consumption of gasoline for each mining company was mainly due to the use of company's vehicles. The Group formulated a complete system for vehicle management, while each mining company shall refuel vehicles via eligible and designated petrol stations instead of storing gasoline and maintain a record of fuel charging. The Group also set up a standard for assessment on fuel consumption of vehicles. Drivers would be assessed in respect of the fuel consumption with strict criterion for mileage and consumption, so as to guarantee a lower consumption when driving and economize on fuel.

Gasoline consumption by each mines of the Group in 2017 as follows:

	For the year ended 31 December		
Unit: 0000' Litres	**2017**	**2016**	**% of change**
Jiheng Mining	**2.1**	0.6	250%
Jingyuancheng Mining	**2.1**	1.6	31.3%
Total	**4.2**	2.2	90.9%

For the year ended 31 December 2017, there was a sharp increase in the fuel consumption for each mining company. It was mainly attributable to increase in car mileage as the Group was developing clients and tour inspection projects were rising up.

Recycling of waste and used materials

The Group encourages the recycling of waste and used materials, with an aim to reduce waste of resources and turn waste into wealth. Dedicated mechanical maintenance department at each mine can revamp abandoned and worn-out equipment for reuse.

Emissions

We attach importance to waste management during operation and formulate scientific environmental impact and protection governance measures strictly in compliance with laws, regulations and environmental requirements, such as the Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法), and reduce waste generation and disposal through technological measures and methods such as recycling and reuse.

The Group adopts physical magnetic separation techniques to produce iron ore concentrates without producing harmful substances during the production process. It uses open-pit operation as its mining method. Stripped waste is mainly produced during mining, waste rocks are mainly produced during dry processing, whereas tailings and waste water are mainly produced during wet processing. Mining and ore hauling in the mines as well as crushing and mechanical operating in the processing plants would produce noise and dust.

Emission management

Waste rocks and tailings management

The Group would produce waste rocks and tailings during mining, dry processing and wet processing. In order to control the risks of producing waste rocks and tailings, the Group had formulated the following effective measures:

Some of the waste rocks produced in mining and dry processing will be backfilled into the mined out open-pit area or reused as construction material for roadways, retaining walls, and swales, which can reduce the waste rock volume. The rest will be sent to waste rock dump areas, and piled up and stored strictly in compliance with the planned requirement. Tailings are transported through tailings pumps and channels to the tailings storage facilities for storage, or they will be dumped in dry, transported to dewatering workshops for dewatering and delivered to the tailings storage facilities by belt conveyer for piling up in compaction. Tailing storage facilities are important for mine production. Each of the subsidiaries discharges, piles up and stores tailings strictly in compliance with the requirements of the design and safety regulation department, and arranges related staff members to check and monitor the tailings storage facilities throughout 24 hours every day. Waste rock dump areas have retaining walls with a height of 2 m installed. Related staff members will be arranged to conduct regular check and examination.

Breakdown of emissions from each mines of the Group for the year ended 31 December 2017 are as follows:

Unit: Mt	Stripped waste produced during mining	Waste rocks produced during dry processing	Tailings produced during wet processing
Jiheng Mining	2.0	2.3	0.9
Jingyuancheng Mining	5.6	11.1	15.3
Total	7.6	13.4	16.2

Dust management

Dust is the main air pollutant produced by each of the subsidiaries of the Group during the operation process. Dust is classified into unorganised dust and organised dust. In order to effectively control the risks of producing dust, the Company formulated the following effective measures:

Unorganised dust includes (1) dust from rock drilling is managed by adoption of wet rock drilling, which means most of the dust produced when drilling the rocks by the drill rigs will deposit along the water flow, which effectively restrains the dust generation; (2) dust from blasting is managed by adoption of water bladder for hole plugging to reduce the amount of dust from the source of blasting; (3) dust from excavating, loading and transportation is managed by the use of sprinklers by construction units for 24-hour sprinkling and dust suppression in order to reduce dust generated by iron ore and waste rocks during loading, vehicle transportation and dumping process; and (4) dust from dumping site is managed by adoption of regular sprinkling, dust suppression and gradual reinstatement of green vegetation to effectively reduce dust from dumping site. In addition, dry processing preliminary concentrates sites and wet processing preliminary concentrates and ore concentrate sites were equipped with windbreak walls, and dry processing raw ores, tailings and preliminary concentrates sites as well as wet processing preliminary concentrates and ore concentrate sites were covered and sheltered to prevent dust in the wind.

Organised dust includes dust generated during crushing in the dry processing plant and is managed by reducing dust mainly through bag dust collector and gravitate dust filter, and also suppressing dust through drenching and spraying system, and the plant was closed and the conveyor belt was sealed. Besides, all subsidiaries provided dust-proof equipment for all dust-affected employees in compliance with the requirements of national prevention and treatment of occupational diseases so as to avoid the occurrence of occupational diseases.

Noise management

The equipment producing high-noise during mining mainly includes drills, air compressors, water pump and transportation vehicles, which produce noise within the range between 75 to 92dB(A). The engineering department adopts measures such as low noise equipment and noise insulation pits to reduce the impacts on the surroundings.

The noise momentary value generated in blasting using open-pit mining is relatively large. As the Group adopts multi-hole and micro-differential blasting method, and mountains in between the mine sites and the sensitive targets in the surroundings act as a barrier to adsorb and intercept most noise, so as to mitigate the impacts of momentary noise generated in blasting on the surroundings. In addition, villages, separated by mountains and forest, are far away from the mining area, where noise is blocked by those barriers and reduced by distance without creating significant impacts on the nearby acoustic environment. After the noise test for the mining boundary contribution value, the noise generating equipment in the mining area fulfills the requirements of Class 3 standard under the Emisson Standard for Industrial Enterprises Noise at Boundary (GB12348-2008).

The equipment generating noise in the processing plants mainly include crushers, ore feeders, vibrating screens, ball mills, dust-collecting fans, pumps, etc. The noise value of the equipment is between 75 to 96dB(A). The equipment generating noise is located in the plants for all the projects to control impacts of noise on the surrounding environment. The adoption of the above noise-reducing measures can arrive at a level of 20dB(A). After the noise test, the noise generating in the plants fulfills the requirements of the corresponding standard limited values of Class 2 under the Emisson Standard for Industrial Enterprises Noise at Boundary (GB12348-2008).

Recycling waste water

Waste water of the Company mainly comes from the water carried off with tailings discharged by processing plants. Being discharged to the tailings storage facilities, the waste water together with tailings would be precipitated and cleaned up. The remaining clean water will flow to the circulating water pumps, which pump up and transport the water back to processing plants available for processing use. As such, the waste water generated by processing plants achieves closed-loop recycling and reuse through the tailings storage facilities without being discharged to the surroundings. At the same time, the domestic sewage in the factory, after treated in the septic tank, together with rainwater, is also discharged into the tailings storage facilities and recycled by processing plants after being cleaned up, achieving zero discharge of domestic sewage and rainwater.

Tailpipe emissions control

The Company selects the fuel equipment that meets the national emission standards and uses it properly. Besides, non-operating fuel equipment for a long time will be shut down in a timely manner to reduce the tailpipe emissions.

Domestic waste control

The perishable domestic waste in the living area is discharged into the septic tank for disposal and burial. Non-corruptible domestic waste is transported to the garbage disposal station for disposal. The Company encourages waste sorting and prohibits the random disposal or incineration of domestic waste.

GHG Emissions

The Group committed to a green office by setting GHG emissions reduction as one of its top priorities. It encouraged using teleconferences, reasonably using travel vehicles and reducing the use of printers as well as promoted a paperless office, with an aim to reduce emissions. For the purpose of cutting back GHG emissions, the Group eliminated outdated high-energy-consuming equipment with more clean-energy facilities to gradually improve the overall energy management.

The Group's main sources of GHG emissions comprise of indirect energy emissions and the direct emissions from official vehicles.

		Annual GHG Emissions (Tons)
Direct emissions	Gasoline and diesel	6,231
Indirect energy emissions	Electricity purchased	115,507
Total		121,738

Supply chain management

The Group has formulated and implemented resources procurement management system which unifies the management of procurement, storage and allocation for resources required by respective mines. According to the demand plans and types of resources required by the production departments, the resources procurement is generally conducted in three ways which are tender, price enquiry and comparison, and sentinel procurement. Contracts are signed for all procurement. The Company strictly oversees the performance of contracts and monitors the payment. The Company maintains a list of suppliers, and provides evaluation and updates regularly.

During the Reporting Period, the Group has a total of 156 listed suppliers which are divided into four categories: Type A has 14 strategic suppliers; Type B has 36 qualified suppliers, Type C has 67 ordinary/new suppliers; and Type D has 39 eliminated suppliers. Among the listed suppliers (excluding Type D), 54 has a registered capital of RMB5 million or above, 29 has a registered capital of RMB1 million to RMB5 million, 14 has a registered capital of less than RMB1 million. There are 20 individual cooperative enterprises. The selection of suppliers of the Group shall be subject to the approval process and supervision procedure, and shall be supervised by the legal department and audit department of the Group, so as to ensure a fair selection procedure.

Suppliers by geographical locations

Areas	Type A	Type B	Type C
Hebei Province	11	18	23
Other provinces	1	15	28
Total	12	33	51

The Group encourages suppliers to make a continuous improvement, and expects all suppliers in compliance with the laws and regulations of their countries. The Group also requires suppliers to provide a safe working environment for their staff members, ensure safety and health as an integral part of their operating activities. Also, the suppliers need to continuously improve their safety standards and performance with the aim of achieving zero injuries. The Group understands the environmental values and social responsibilities with suppliers by mutually communicating from time to time.

The Group expects suppliers to implement good employment measures by dealing with their employees fairly and reasonably, respecting employees' rights and providing employees with an environment free of discrimination, child labour and forced labour. The suppliers also need to adhere to transparency business processes and high standards of conduct, including avoiding conflicts of interest and prohibiting corruption and accepting bribery.

The Group's suppliers must also emphasize the efficient use of resources and strive to reduce waste. This includes efficiently using fuel and water, properly processing and disposing of waste, monitoring and managing their impacts on the environment in a responsible manner, and continuing to improve in all aspects.

Product responsibility

Quality is an eternal theme and the life of an enterprise. Product quality is the cornerstone to represent a brand and the core of enhancing operation value of a brand. Therefore, the Group puts high emphasis on the quality and reputation of products. The Group strictly follows the laws and regulations related to Product Quality Law and formulates comprehensive management systems in respect of quality and sales, strengthening the quality examination and sales management of products to ensure that high-quality products are offered to the customers.

Products sold to the customers by the Group must be assessed and conduct quality examination before exporting from the mines and delivering to the customers. The quantity and quality of the Company and the customers can be compared. When the differences appear to be substantial, the Group will address the problem under the Customer Complaints Guidelines for Quantity and Quality. Problem that cannot be resolved will be subject to review and arbitration by third-party authoritative organization.

The Group has an established management system with advanced production techniques and equipments, as well as dedicated and responsible staff members. During the Reporting Period, there is no material quality defect of products or recall of products sold.

Anti-corruption

Ethics and integrity is the cornerstone of the Group's success. The Group adopts zero-tolerance approach to bribery, extortion, fraud and money-laundering in strict compliance with Anti-Corruption Law (反腐敗法). All directors, management personnel and staff members must comply with all related national and local government laws and regulations on preventing bribery, extortion, fraud and money-laundering in their operation regions in their daily work. All employees not only have responsibility to understand and comply with above policies on preventing bribery, extortion, fraud and money-laundering, but also have obligation to report violation to the person responsible for audit department. Any person, who contravenes the regulations, will be subject to disciplinary sanction.

In order to strengthen the anti-corruption approach, the Company sets up an audit department dedicated to executing anti-corruption function, commencing special issues auditing and supervision processes in due course, investigating loopholes and defects rectification, and auditing legality, reasonability and stringency of respective businesses. The Group establishes and improves various internal systems to specify the anti-corruption management disciplines and conduct requirements of the Company, so that corruption can be eliminated with the help of an established system and better management approach.

Meanwhile, the Group commences anti-corruption training, laws education among the public and case analysis, so as to promote the importance of anti-corruption. The Company sets up various channels such as telephone hotlines, email and mailbox for whistleblowing. Dedicated staff members collect and sort reported information on a regular basis and refer the same to the audit department for supervision and investigation. The Company also adopts various measures to encourage staff members to proactively report acts in violation of disciplines, and strengthens the privacy protection of the whistleblower.

The Group puts more efforts on punishing acts in violation of disciplines by increasing the fines on violation. Upon verification of any acts in violation, the entire illegal proceeds will be confiscated and the violator will be fined twice the amount of its illegal proceeds (cash equivalent for gifts), and subject to administrative sanction such as demotion and removal. Serious case will be referred to judicial authorities for criminal charges.

For the year ended 31 December 2017, the Group was not aware of any corruption litigation cases against the Company or its staff members.

Community Participation

Adhering to the tenet of "harmonious mines", the Group attaches importance to the establishment of a harmonious relationship with the local communities. The Company comes to understand their needs by actively participating in community activities, and takes concrete actions to ensure that interests of the communities are taken into consideration in the operations of the Group.

During the Reporting Period, The Group actively supported its community education development by donating RMB200,000 in the charity activity "Autumn Endowments(金秋助學)" and was granted the title of "Advanced Corporation" for 2016-2017 by the Laiyuan County People's Government.

At the end of 2017, the Group actively subsidized the elderly people living alone in the community with over RMB 30,000 worth of such supplies donation as food and edible oil.

In addition, the candidates from the community where the Group runs business enjoy the priority to be recruited, which not only relieves the local employment pressure, increases villagers' income, but also promotes good relationship between villages and enterprises.

The table below presents the employment of local villagers by each mine as at 31 December 2017:

Companies	Total number of employees	Number of local employees	Percentage of local employees to total workforce
Jiheng Mining	271	159	58.7%
Jingyuancheng Mining	525	364	69.3%
Xinxin Mining	14	11	78.6%
Aowei Mining	49	5	10.2%
Total	859	539	62.7%

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Aowei Holding Limited
(incorporated in the British Virgin Islands and continued in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Aowei Holding Limited (the "Company") and its subsidiaries (the "Group", formerly known as Hengshi Mining Investments Limited) set out on pages 92 to 160, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessment of impairment/reversal of impairment of mining assets

Refer to notes 2(k) (ii), 3(a) (iii) and 16 to the consolidated financial statements on pages 106, 115 and 132.

The Key Audit Matter

The Group's mining assets are located in three mining areas, each of which is owned by one of the Group's subsidiaries. Each subsidiary was considered to be a separate cash generating unit ("CGU"). As a result of continuing weaker iron ore price forecasts and the deferral of the Group's mine development plans in the second half of 2015, the Group recognised impairment losses in respect of its mining assets of RMB393.6 million for the year ended 31 December 2015. During the year of 2016, management had reassessed whether there was any indication that a CGU might be impaired and performed impairment assessments. Based on these impairment assessments, no further impairment losses were considered necessary as at 31 December 2016.

As a result of the continuing production suspension of Xinxin Mining, i.e. one of the Group's CGU, and the adjustment to the Group's mine development plans due to the gradual tightening of environmental protection policies in Hebei Province in which the Group operates, management has performed impairment assessments of the Group's mining assets as at 31 December 2017. Management determined the recoverable amount of each CGU by using discounted cash flow techniques and engaged an independent external valuation expert to assist in determining the recoverable amount of each CGU for assessing impairments. Accordingly, the Group recognised impairment losses in respect of its mining assets of RMB375.6 million for the year ended 31 December 2017.

We identified the assessment of impairment/reversal of impairment of mining assets as a key audit matter because the assessment of the recoverable amount of amount of a CGU involves significant management judgement in the selection of the assumptions adopted in the discounted cash flow forecasts which could be subject to management bias.

How the matter was addressed in our audit

Our procedures to assess the impairment/reversal of impairment of mining assets included the following:

- evaluating the design and implementation of key internal controls over the valuations of the Group's CGUs on which the related estimated recoverable amounts are based;
- with the assistance of our internal valuation specialists, assessing the methodology applied by management in its impairment assessments with reference to the requirements of the prevailing accounting standards;
- evaluating the experience, competence, objectivity and independence of the independent external valuation expert engaged by the management to perform the valuation of the recoverable amount of each CGU;
- challenging the Group's key assumptions and estimates used to determine the recoverable amounts of the CGUs, including those relating to future sales, future operating costs, future capital expenditure and the discount rates applied. This included obtaining the independent valuation report from the external valuation expert engaged by management, and involving our internal valuation specialists to compare these key assumptions and estimates with external benchmarks (including future commodity prices and discount rates for similar companies in the same industry) and to consider the key assumptions and estimates based on their knowledge of the Group and the industry in which it operates;
- comparing the key assumptions and estimates included in the discounted cash flow forecasts prepared in the prior year with the current year's performance of the CGUs to assess the reliability management's discounted cash flow forecasts and making enquiries of management as to the reasons for any significant variances identified;
- performing sensitivity analyses of the key assumptions and estimates adopted in the discounted cash flow forecasts and assessing the impact of changes in the key assumptions and estimates and whether there were any indicators of management bias; and
- assessing the disclosures in the consolidated financial statements in respect of management's impairment assessments with reference to the requirements of the prevailing accounting standards.

Assessment of impairment of goodwill allocated to the acquisition of Xinan Investments Limited

Refer to notes 2(k) (ii), 3(a) (iii), and 16 to the consolidated financial statements on pages 106, 115 and 132.

The Key Audit Matter

Xinan Investments Limited and its subsidiary (collectively, the "Acquired Business") are principally engaged in hospital management, the establishment of specialist clinics, the supply of medical consumables and the provision of nursing services. The Company completed the acquisition of 100% of the issued share capital of Xinan Investments Limited on 13 July 2016. Goodwill of RMB73.4 million have been allocated to the cash generating unit to which the Acquired Business belongs ("Xinan CGU").

As at 31 December 2017, management has performed the impairment assessment of goodwill and engaged an independent external valuation expert to assist in determining the carrying amount of goodwill. The carrying amount of goodwill is assessed using the value in use method by preparing a discounted cash flow forecast for the Xinan CGU to which goodwill has been allocated and comparing the net present value of the forecast cash flows with the carrying values of the related assets. Given the under-performance of the Acquired Business and thus the carrying amount of goodwill may not be recovered from future cash flows to be generated from the Acquired Business, the Group recognised impairment loss of RMB73.4 million in respect of its goodwill for the year ended 31 December 2017.

The preparation of a discounted cash flow forecast involves the exercise of significant management judgement over key assumptions, including those relating to the number of patient and average income earned from each patient, gross margin on supply chain business and the discount rate applied.

We identified assessing impairment of goodwill relating to the Acquired Business as a key audit matter because assessing impairment involves forecasting future cash flows which is complex and inherently uncertain and could be subject to management bias.

How the matter was addressed in our audit

Our procedures to assess the impairment of goodwill included the following:

- evaluating the design and implementation of key internal controls over the impairment testing of goodwill;

- with the assistance of our internal valuation specialist, assessing the methodology applied by management in its impairment testing with reference to the requirements of the prevailing accounting standards;

- evaluating the experience, competence, objectivity and independence of the independent external valuation expert engaged by management to value the recoverable amount of the Xinan CGU;

- challenging the key assumptions adopted in the assessment of the recoverable amounts of the Xinan CGU, including those relating to the number of patient and average income earned from each patient, gross margin on supply chain business and the discount rates applied. This included obtaining the independent valuation report from the external valuation expert engaged by management, and involving our internal valuation specialists to compare these key assumptions and estimates with external benchmarks and to consider the key assumptions and estimates based on their knowledge of the Group and the industry in which it operates;

- comparing the key assumptions and estimates included in the discounted cash flow forecast prepared in the prior year with the current year's performance of the Xinan CGU to assess the reliability of management's discounted cash flow forecast and making enquiries of management as to the reasons for any significant variances identified;

- performing sensitivity analyses of the key assumptions and estimates adopted in the discounted cash flow forecast and assessing the impact of changes in the key assumptions and estimates and whether there were any indicators of management bias; and

- assessing the disclosures in the consolidated financial statements in respect of management's goodwill impairment assessment with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

– Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chu Man Wai.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

27 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017
(Expressed in Renminbi)

	Note	2017 RMB'000	2016 RMB'000
Revenue	4	**869,122**	757,137
Cost of sales		**(594,757)**	(488,291)
Gross profit		**274,365**	268,846
Distribution costs		**(10,731)**	(13,144)
Administrative expenses		**(74,056)**	(97,240)
Impairment losses	5(c)	**(449,055)**	–
(Loss)/profit from operations		**(259,477)**	158,462
Finance income	5(a)	**3,871**	4,065
Finance costs	5(a)	**(45,574)**	(43,577)
Net finance costs		**(41,703)**	(39,512)
(Loss)/profit before taxation	5	**(301,180)**	118,950
Income tax	6	**(55,828)**	(33,284)
(Loss)/profit for the year		**(357,008)**	85,666
Other comprehensive income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of group of companies outside of Mainland China	9	**(1,211)**	1,395
Total comprehensive income for the year		**(358,219)**	87,061
(Loss)/profit attributable to equity shareholders of the Company		**(357,008)**	85,666
Total comprehensive income attributable to equity shareholders of the Company		**(358,219)**	87,061
(Loss)/earnings per share			
Basic and diluted (RMB)	10	**(0.22)**	0.05

The notes on pages 98 to 160 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 29(b).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2017
(Expressed in Renminbi)

	Note	31 December 2017 RMB'000	31 December 2016 RMB'000
Non-current assets			
Property, plant and equipment, net	11	**755,528**	838,579
Construction in progress	12	**696**	5,374
Lease prepayments	13	**112,111**	127,035
Intangible assets	14	**369,709**	753,758
Goodwill	15	**–**	73,410
Long-term receivables	18	**55,760**	53,960
Prepayments	19	**59,412**	3,576
Deferred tax assets	26(b)	**129,853**	122,163
Total non-current assets		**1,483,069**	1,977,855
Current assets			
Inventories	20	**91,570**	106,147
Trade and other receivables	21	**295,598**	123,688
Other financial assets		**–**	48,000
Restricted deposits	22	**342,836**	298,048
Cash and cash equivalents	23	**65,745**	46,577
Total current assets		**795,749**	622,460
Current liabilities			
Short-term borrowings	24	**320,000**	310,000
Trade and other payables	25	**188,057**	180,410
Current taxation	26(a)	**49,249**	27,994
Current portion of long-term payables	27	**77,889**	45,501
Current portion of accrued reclamation obligations	28	**7,316**	5,720
Total current liabilities		**642,511**	569,625
Net current assets		**153,238**	52,835
Total assets less current liabilities		**1,636,307**	2,030,690

The notes on pages 98 to 160 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2017
(Expressed in Renminbi)

	Note	31 December 2017 RMB'000	31 December 2016 RMB'000
Non-current liabilities			
Long-term payables, less current portion	*27*	**162,446**	197,707
Accrued reclamation obligations, less current portion	*28*	**52,260**	51,606
Deferred tax liabilities	*26(b)*	**44,413**	50,090
Total non-current liabilities		**259,119**	299,403
NET ASSETS		**1,377,188**	1,731,287
CAPITAL AND RESERVES			
Share capital	*29(c)*	**131**	131
Reserves		**1,377,057**	1,731,156
TOTAL EQUITY		**1,377,188**	1,731,287

Approved and authorised for issue by the board of directors on 27 March 2018.

Li Yanjun
Chairman and Executive Director

Leung Hongying Li Ziwei
Vice Chairman and Executive Director

The notes on pages 98 to 160 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company							
	Note	Share capital RMB'000 (note 29(c))	Share premium RMB'000 (note 29(d))	Statutory surplus reserve RMB'000 (note 29(d))	Specific reserve RMB'000 (note 29(d))	Exchange reserve RMB'000 (note 29(d))	Other reserve RMB'000 (note 29(d))	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2016		120	928,309	84,556	65,543	(1,847)	(126,229)	483,552	1,434,004
Changes in equity for 2016:									
Profit for the year		–	–	–	–	–	–	85,666	85,666
Other comprehensive income		–	–	–	–	1,395	–	–	1,395
Total comprehensive income		–	–	–	–	1,395	–	85,666	87,061
Shares issued for acquisition of business		11	214,331	–	–	–	–	–	214,342
Transfer to specific reserve, net of utilisation		–	–	–	(5,620)	–	–	5,620	–
Recognition of deferred tax liabilities arising from undistributed profits of subsidiaries in Mainland China	*26(b)*	–	–	–	–	–	–	(4,120)	(4,120)
Balance at 31 December 2016 and 1 January 2017		**131**	**1,142,640**	**84,556**	**59,923**	**(452)**	**(126,229)**	**570,718**	**1,731,287**
Changes in equity for 2017:									
Loss for the year		**–**	**–**	**–**	**–**	**–**	**–**	**(357,008)**	**(357,008)**
Other comprehensive income		**–**	**–**	**–**	**–**	**(1,211)**	**–**	**–**	**(1,211)**
Total comprehensive income		**–**	**–**	**–**	**–**	**(1,211)**	**–**	**(357,008)**	**(358,219)**
Transfer back to retained earnings, net of utilisation		**–**	**–**	**–**	**(3,129)**	**–**	**–**	**3,129**	**–**
Reversed of deferred tax liabilities arising from undistributed profits of subsidiaries in Mainland China	*26(b)*	**–**	**–**	**–**	**–**	**–**	**–**	**4,120**	**4,120**
Balance at 31 December 2017		**131**	**1,142,640**	**84,556**	**56,794**	**(1,663)**	**(126,229)**	**220,959**	**1,377,188**

The notes on pages 98 to 160 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2017
(Expressed in Renminbi)

	Note	2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
(Loss)/profit before taxation		(301,180)	118,950
Adjustments for:			
Depreciation and amortisation	5(c)	142,884	118,342
Interest income	5(a)	(3,871)	(4,065)
Interest expenses	5(a)	45,573	43,296
Net losses on disposal of property, plant and equipment	5(c)	9	–
Impairment losses	5(c)	449,055	–
Changes in working capital:			
Decrease in inventories		14,577	8,905
(Increase)/decrease in trade and other receivables		(230,775)	82,393
(Decrease)/increase in trade and other payables		(11,972)	31,150
Cash generated from operations		104,300	398,971
Income tax paid	26(a)	(43,820)	(29,785)
Net cash generated from operating activities		60,480	369,186
Investing activities			
Payment for purchase of property, plant and equipment and construction in progress		(31,680)	(160,563)
Payment for purchase of other assets		(16,494)	(5,685)
Proceeds from disposal of property, plant and equipment		43	–
Payment from redemption of other financial assets		–	(48,000)
Proceeds for purchase of other financial assets		48,000	–
Placement of restricted deposits for investing purpose		(24,789)	(257,018)
Interest received	5(a)	3,871	4,065
Net cash received from acquisition of business		–	682
Net cash used in investing activities		(21,049)	(466,519)

for the year ended 31 December 2017
(Expressed in Renminbi)

	Note	2017 RMB'000	2016 RMB'000
Financing activities			
Proceeds from borrowings	*23(b)*	**360,000**	500,000
Repayment of borrowings	*23(b)*	**(350,000)**	(390,000)
Interest paid	*23(b)*	**(29,027)**	(26,915)
Net cash (used in)/generated from financing activities		**(19,027)**	83,085
Net increase/(decrease) in cash and cash equivalents		**20,404**	(14,248)
Cash and cash equivalents at 1 January		**46,577**	59,495
Effect of foreign exchange rate changes		**(1,236)**	1,330
Cash and cash equivalents at 31 December	*23*	**65,745**	46,577

The notes on pages 98 to 160 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 CORPORATION INFORMATION

Aowei Holding Limited (the "Company", formerly known as Hengshi Mining Investments Limited) was incorporated in the British Virgin Islands on 14 January 2011 and redomiciled to the Cayman Islands on 23 May 2013 as an exempted company with limited liability under the Companies Law, Chapter 22 (2012 Revision, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries (together the "Group") are principally engaged in the mining, processing and sale of iron ore products and the provision of hospital management service in the People's Republic of China ("PRC").

Pursuant to a group reorganisation (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the Reorganisation are set out in the prospectus of the Company dated 18 November 2013. The Company's shares were listed on the Stock Exchange on 28 November 2013.

On 13 July 2016, the Company acquired the 100% issued share capital of Xinan Investments Limited ("Xinan") with details set out in note 5 to the consolidated financial statements for the year ended 31 December 2016.

On 28 November 2017, the name of the Company was changed from Hengshi Mining Investments Limited to Aowei Holding Limited.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these impact on how the accounting policies of the Group. However, additional disclosure has been included in note 23(b) to satisfy the new disclosure requirements introduced by the amendments to IAS 7, Statement of cash flows: *Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Basis of consolidation

(i) Business combinations involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets acquired and liabilities assumed are measured based on their carrying amounts in the consolidated financial statements of the ultimate controlling party at the combination date. The difference between the carrying amount of the net assets acquired and the consideration paid for the combination (or the total par value of shares issued) is adjusted to equity. Any costs directly attributable to the combination are recognised in profit or loss when incurred. The combination date is the date on which one combining entity obtains control of other combining entities.

(ii) Business combinations involving entities not under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. Acquisition-related costs are expensed when incurred. The acquiree's identifiable assets, liabilities and contingent liabilities, if the recognition criteria are met, are recognised by the Group at their acquisition-date fair value. The acquisition date is the date on which the acquirer obtains control of the acquiree.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Basis of consolidation *(continued)*

(iii) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 2(n) or (o) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Other investments

Investments are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets.

At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in debt securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(k)(i)). Interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in note 2(v)(ii). Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 2(k)(i)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(f) Property, plant and equipment

Property, plant and equipment, which consists of buildings and plants, machinery and equipment, motor vehicles, office equipment and mine properties (including capitalised stripping costs), are initially stated at cost less accumulated depreciation and impairment losses (see note 2(k)(ii)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use, the cost of borrowed funds used during the period of construction (see note 2(x)) and, when relevant, the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other cost is recognised as an expense in profit or loss in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss on the date of retirement or disposal.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Property, plant and equipment *(continued)*

Depreciation is calculated to write off the cost of items of property, plant and equipment, other than mine properties, over their estimated useful lives using the straight-line method, after taking into account the estimated residual values. The estimated useful lives of property, plant and equipment, other than mine properties, are as follows:

	Depreciable life
Buildings and plants	6 – 20 years
Machinery and equipment	3 – 10 years
Motor vehicles	5 years
Office equipment	3 years

Mine properties are depreciated using the units-of-production method based on the proven and probable mineral reserves of the relevant ore body or component of ore body.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Construction in progress

Construction in progress represents property and plant under construction, equipment pending installation and mines under construction, and is initially recognised at cost less impairment losses (see note 2(k)(ii)). Cost comprises cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs (see note 2(x)).

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress until it is completed and substantially ready for its intended use.

(h) Capitalised stripping costs

The process of removing overburden and other mine waste materials to access mineral deposits is referred to as stripping. In open-pit mining, stripping costs are accounted for separately for each component of an ore body unless the stripping activity provides improved access to the whole of the ore body. A component is a specific section within an ore body that is made more accessible by the stripping activity. The identification of components is dependent on the mine plan.

There are two types of stripping activity:

- Development stripping is the initial overburden removal during the development phase to obtain access to a mineral deposit that will be commercially produced; and

- Production stripping is the inter-burden removal during the normal course of production activity.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Capitalised stripping costs *(continued)*

Development stripping costs are capitalised as a stripping activity asset (in construction in progress) and forming part of the cost of constructing the mine, when:

- It is probable that future economic benefits associated with the asset will flow to the Group; and
- The costs can be measured reliably.

Capitalisation of development stripping costs ceases and these costs are transferred to mine properties (in property, plant and equipment) when the ore body or the component of an ore body is ready for its intended use.

Production stripping can give rise to two benefits being the extraction of ore in the current period and improved access to the ore body or the component of an ore body in future periods. To the extent that the benefit is the extraction of ore, the stripping costs are recognised as cost of inventories. To the extent the benefit is improved access to the ore body or the component of an ore body in future periods, the stripping costs are capitalised as mine properties, if the following criteria are met:

- It is probable that the future economic benefits (improved access to the ore body or the component of an ore body) will flow to the Group;
- The ore body or the component of an ore body for which access has been improved can be identified; and
- The costs relating to the stripping activity can be measured reliably.

Production stripping costs are allocated between the inventories produced and the mine properties capitalised using a life-of-component waste to ore stripping ratio. When the current stripping ratio is greater than the life-of-component stripping ratio, a portion of the stripping costs is capitalised to the existing mine properties.

(i) Goodwill and other intangible assets

(i) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Goodwill and other intangible assets *(continued)*

(i) Goodwill *(continued)*

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, which is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(k)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(ii) Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment losses (see note 2(k)(ii)). The mining rights are amortised using the units-of-production method based on the proved and probable mineral reserves. The Group's mining rights are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all reserves to be mined in accordance with current production schedules.

(iii) Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less impairment losses (see note 2(k)(ii)). Exploration and evaluation assets include expenditures incurred in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and expenditures incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure during the initial exploration stage is charged to profit or loss as incurred.

When it can be reasonably ascertained that a mining structure is capable of commercial production, exploration and development costs capitalised are transferred to mining right and amortised to profit or loss using the units-of-production method based on the proved and probable mineral reserves. If any project is abandoned during the exploration and evaluation stage, the related exploration and evaluation assets are written off to profit or loss.

(iv) Hospital management right

The acquired hospital management right is stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(k)(ii)).

Amortisation of the hospital management right is charged to profit or loss on a straight-line basis over its estimated useful lives of 30 years.

Both the period and method of amortisation are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Lease prepayments

Lease prepayments represent the costs of acquiring land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses (see note 2(k)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the period of land use rights.

(k) Impairment of assets

(i) Impairment of investments in subsidiaries and trade and other receivables

Investments in subsidiaries and trade and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

(i) Impairment of investments in subsidiaries and trade and other receivables *(continued)*

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in subsidiaries (see note 2(d)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(k)(ii).

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (including capitalised mine properties);

- construction in progress;

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

(ii) Impairment of other assets *(continued)*

- lease prepayments;
- intangible assets;
- goodwill;
- investments in subsidiaries; and
- other non-current assets (excluding receivables)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount
  The recoverable amount of an asset is the greater of its fair value less costs of disposal ("FVLCD") and value in use ("VIU"). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit, or "CGU").

- Recognition of impairment losses
  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual FVLCD (if measurable) or VIU (if determinable).

- Reversals of impairment losses
  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(k)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(l) Inventories

Inventories, including weakly mineralised wall rock, iron ores, preliminary concentrates and iron ore concentrates, are physically measured or estimated and valued at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, cost of conversion, an appropriate portion of fixed and variable overhead costs, including the stripping costs incurred during the production phase, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated future sales price of the product the Group expects to realise when such item is sold or processed, less estimated costs to complete and bring the product to sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Inventories of ancillary materials, spare parts and small tools used in production are stated at cost less impairment losses for obsolescence.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(k)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(q) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Income tax *(continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Provisions and contingent liabilities *(continued)*

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Levies

A levy is not recognised until the obligating event specified in relevant legislation occurs, even if there is no realistic opportunity to avoid the obligation.

(u) Obligations for reclamation

The Group's obligations for reclamation consist of spending estimates at its mines in accordance with the relevant rules and regulations in the PRC. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash spending to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The Group records a corresponding asset associated with the liability for final reclamation and mine closure as mine properties in property, plant and equipment. The obligation and corresponding asset are recognised in the period in which the liability is incurred. The asset is depreciated on the units-of-production method over its expected life and the liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and the corresponding asset are recognised at the appropriate discount rate.

(v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of iron ore products

Revenue associated with the sale of iron ores, preliminary concentrates and iron ore concentrates is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Service income

Service income associated with hospital management is recognised when the related services are rendered and when it is probable that the economic benefits from the service rendered will flow to the Group and such benefit could be reliably measured.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Translation of foreign currencies

The presentation currency of the Group is Renminbi ("RMB"). The functional currency of the Company and Hengshi Development International Limited is Hong Kong dollars ("HKD") and the functional currency of other group entities is Renminbi. Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(y) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) Related parties *(continued)*

(ii) An entity is related to the Group if any of the following conditions applies:

(a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(c) Both entities are joint ventures of the same third party.

(d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(f) The entity is controlled or jointly controlled by a person identified in (i).

(g) A person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(h) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

(i) Iron ore reserves

Engineering estimates of the Group's iron ore reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. Reserve estimates are updated at regular basis and have taken into account recent production and technical information about the relevant iron ore deposits. In addition, as prices and cost levels change from year to year, the estimate of iron ore reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation and amortisation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation and amortisation expenses and impairment loss. Depreciation and amortisation rates are determined based on estimated iron ore reserve quantity and costs of mining structures and mining rights. The cost of mining structures and mining rights are depreciated and amortised based on the units of iron ore reserves consumed.

(ii) Useful lives of property, plant and equipment

Management determines the estimated useful lives of and related depreciation charges for its property, plant and equipment. This estimate is based on the actual useful lives of assets of similar nature and functions. It could change significantly as a result of significant technical innovations and competitor actions in response to industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(iii) Impairment of assets

In relation to the goodwill, the CGU to which goodwill has been allocated is tested for impairment annually whether or not there is any indicator of impairment. Management prepares discounted future cash flow to assess the differences between the carrying amount and VIU. In case the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU.

The Group reviews the carrying amounts of the assets at the end of each reporting period to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cash flow to assess the differences between the carrying amount and VIU and provided for impairment loss. Any change in the assumptions adopted in the cash flow forecasts would increase or decrease in the provision of the impairment loss and affect the Group's net asset value.

In relation to trade and other receivables, a provision for impairment is made and an impairment loss is recognised in profit or loss when there is objective evidence (e.g. probability of insolvency or significant financial difficulties of debtors) that the Group will not be able to collect all of the amounts due under the original terms of invoices. Management uses judgement in determining the probability of insolvency or significant financial difficulties of debtors.

3 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

(a) Critical accounting judgements in applying the Group's accounting policies *(continued)*

(iii) Impairment of assets *(continued)*

Notwithstanding that the Group has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher or lower than the amount estimated. An increase or decrease in the above impairment loss would affect the net profit in future years.

(iv) Obligations for reclamation

The estimation of the liabilities for final reclamation and mine closure involves the estimates of the amount and timing for the future cash spending as well as the discount rate used for reflecting current market assessments of the time value of money and the risks specific to the liability. The Group considers the factors including future production volume and development plan, the geological structure of the mining regions and reserve volume to determine the scope, amount and timing of reclamation and mine closure works to be performed. Determination of the effect of these factors involves judgements from the Group and the estimated liabilities may turn out to be different from the actual expenditure to be incurred. The discount rate used by the Group may also be altered to reflect the changes in the market assessments of the time value of money and the risks specific to the liability, such as change of the borrowing rate and inflation rate in the market. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation will be recognised at the appropriate discount rate.

(v) Recognition of deferred tax assets

Deferred tax assets in respect of unused tax losses and tax credit carried forward and deductible temporary differences are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and require a significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in the future years.

(vi) Capitalised stripping costs

Production stripping costs can be incurred both in relation to the production of inventories in that period and the creation of improved access and mining flexibility in relation to ore to be mined in the future. The former are included as part of the costs of inventories, while the latter are capitalised as mine properties, where certain criteria are met (see note 2(h)). Significant judgement is required to distinguish between the production stripping that related to the extraction of inventories and what relates to the creation of mine properties.

Once the Group has identified its production stripping for each surface mining operation, it identifies the separate components of the ore bodies for each of its mining operations. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity. Significant judgement is required to identify and define these components, and also to determine the expected volumes of waste to be stripped and ore to be mined in each of these components. These assessments are undertaken for each individual mining operation based on the information available in the mine plan. The mine plans and, therefore, the identification of components, will vary between mines for a number of reasons. These include, but are not limited to, the type of commodity, the geological characteristics of the ore body, the geographical location and/or financial considerations.

3 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

(a) Critical accounting judgements in applying the Group's accounting policies *(continued)*

(vi) Capitalised stripping costs *(continued)*

Judgement is also required to identify a suitable production measure to be used to allocation production stripping costs between inventories and any stripping activity asset for each component. The Group considers that the ratio of the expected volume of waste to be stripped for an expected volume of ores to be mined for a specific component of the ore body, the most suitable production measure.

(vii) Exploration and evaluation expenditure

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits will flow to the Group. It requires management to make certain estimates and assumptions about future events or circumstances, in particular, whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in profit or loss in the period when the new information becomes available.

(b) Sources of estimation uncertainty

Other than requiring critical accounting judgements, assumptions concerning the future and other major sources of estimation uncertainty at the end of each reporting period are required in relation to the Group's accounting policies on "impairment of assets", "obligations for reclamation" and "recognition of deferred tax assets". Information about the assumptions and their risk factors are set out in notes 3(a)(iii), (iv) and (v).

4 REVENUE AND OPERATING SEGMENTS

(a) Revenue

The Group is principally engaged in the mining, processing and sale of iron ores, preliminary concentrates and iron ore concentrates and the provision of hospital management service. Revenue mainly represents the sales value of goods sold to customers and the service income from hospital management exclusive of value added tax. The amount of each significant category of revenue recognised is as follows:

	2017 RMB'000	2016 RMB'000
Mining Segment		
Iron ore concentrates	**868,783**	734,485
Preliminary concentrates	**–**	21,588
Iron ores	**–**	1,048
Others	**–**	4
	868,783	757,125
Medical Segment		
Hospital management service	**339**	12
	869,122	757,137

4 REVENUE AND OPERATING SEGMENTS *(continued)*

(a) Revenue *(continued)*

During the year ended 31 December 2017, there were three customers with whom transactions have exceeded 10% of the Group's revenue (2016: three customers) and revenue from sale of iron ore concentrates to these customers amounted to RMB703,675,000 (2016: RMB603,936,000). Details of the concentration of credit risk arising from the Group's customers are set out in note 30(a).

(b) Operating Segments

The Group manages its businesses based on its business line, which are divided into mining, processing and sale of iron ore products and the provision of hospital management service. Before July 2016, the Group only had one business line, the mining, processing and sale of iron ore products. Operation of hospital management business was acquired by the Group in July 2016.

In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker ("CODM") for the purposes of resources allocation and performance assessment, the Group has identified and presented the following two reportable segments in accordance with IFRS 8. No operating segments have been aggregated to form the following reportable segments:

- the mining, processing and sale of iron ore products; and
- the provision of hospital management, establishment of specialist clinics supply of medical consumables and nursing service.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's CODM monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets and liabilities include all non-current assets and liabilities and current assets and liabilities with the exception of unallocated head office and corporate assets and liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments. Head office and corporate expenses are not allocated to individual segments.

Segment profit represents the profit after taxation generated by individual segments.

Segment assets and liabilities of the Group are not reported to the Group's CODM regularly. As a result, reportable segment assets and liabilities have not been presented in the financial statements.

4 REVENUE AND OPERATING SEGMENTS *(continued)*

(b) Operating Segments *(continued)*

(i) Segment results, assets and liabilities *(continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2017 is set out below.

	Year ended 31 December 2017		
	Mining, processing and sale of iron ore segment RMB'000	Provision of hospital management, establishment of specialist clinics supply of consumables and nursing service RMB'000	Total RMB'000
Reportable segment revenue	868,783	339	869,122
Cost of sales	(588,522)	(6,235)	(594,757)
Reportable segment gross profit/(loss)	280,261	(5,896)	274,365
Distribution costs	(10,731)	–	(10,731)
Administrative expenses	(76,723)	(1,095)	(77,818)
Net finance costs	(41,718)	13	(41,705)
Impairment losses on assets	(375,645)	(73,410)	(449,055)
Reportable segment loss before taxation	(224,556)	(80,388)	(304,944)
Income tax	(57,404)	1,558	(55,846)
Reportable segment loss	(281,960)	(78,830)	(360,790)

(Expressed in Renminbi unless otherwise indicated)

4 REVENUE AND OPERATING SEGMENTS *(continued)*

(b) Operating Segments *(continued)*

(i) Segment results, assets and liabilities *(continued)*

	Year ended 31 December 2016		
	Mining, processing and sale of iron ore segment RMB'000	Provision of hospital management, establishment of specialist clinics supply of consumables and nursing service RMB'000	Total RMB'000
Reportable segment revenue	757,125	12	757,137
Cost of sales	(485,174)	(3,117)	(488,291)
Reportable segment gross profit/(loss)	271,951	(3,105)	268,846
Distribution costs	(13,144)	–	(13,144)
Administrative expenses	(92,380)	(1,129)	(93,509)
Net finance costs	(39,292)	–	(39,292)
Reportable segment profit/(loss) before taxation	127,135	(4,234)	122,901
Income tax	(34,037)	779	(33,258)
Reportable segment profit/(loss)	93,098	(3,455)	89,643

(ii) Reconciliations of reportable segment revenue and profit or loss:

	2017 RMB'000	2016 RMB'000
Revenue		
Reportable segment revenue	**869,122**	757,137
Consolidated revenue *(note 4(a))*	**869,122**	757,137
Profit		
Reportable segment (loss)/profit	**(360,790)**	89,643
Unallocated head office and corporate income/(expense)	**3,782**	(3,977)
Consolidated (loss)/profit	**(357,008)**	85,666

4 REVENUE AND OPERATING SEGMENTS *(continued)*

(b) Operating Segments *(continued)*

(iii) All of the Group's operations are located in the PRC, therefore no geographical segment reporting is presented.

5 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after (crediting)/charging:

(a) Net finance costs:

	2017 RMB'000	2016 RMB'000
Interest income	(3,871)	(4,065)
Finance income	**(3,871)**	(4,065)
Interest on interest-bearing borrowings	29,143	27,355
Unwinding of interest on		
– long-term payables	13,621	13,222
– accrued reclamation obligations *(note 28)*	2,809	2,719
Foreign exchange loss, net	1	281
Finance costs	**45,574**	43,577
Net finance costs	**41,703**	39,512

5 (LOSS)/PROFIT BEFORE TAXATION *(continued)*

(a) Net finance costs: *(continued)*

During the year ended 31 December 2017, no borrowing costs were capitalised in relation to construction in progress (2016: RMB nil).

(b) Staff costs:

	2017 RMB'000	2016 RMB'000
Salaries, wages and other benefits	**70,785**	65,523
Retirement scheme contributions	**4,725**	4,820
	75,510	70,343

Employees of the Group are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group contributes funds at a rate of 12% of the bases determined by referencing to the prevailing average salary of Hebei Province and as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other obligations for payment of retirement and other post-retirement benefits of employees other than the contribution described above.

(c) Other items:

	2017 RMB'000	2016 RMB'000
Cost of inventories *(note (i))*	**588,522**	485,174
Depreciation and amortisation	**142,884**	118,342
Operating lease charges	**5,036**	3,589
Auditor's remuneration		
– audit services	**3,060**	3,000
– non audit services	**470**	680
Allowance for doubtful debts	**–**	286
Net losses on disposal of property, plant and equipment	**9**	–
Impairment losses *(note 16)*	**449,055**	–

Note:

(i) During the year ended 31 December 2017, cost of inventories includes RMB181,160,000 (2016: RMB131,630,000) relating to staff costs, depreciation and amortisation expenses which are also included in the respective amounts disclosed separately above for each of these types of expenses.

During the year ended 31 December 2017, production stripping costs recognised in profit or loss as part of cost of inventories amounted to RMB280,135,000 (2016: RMB227,215,000).

6 INCOME TAX

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2017 RMB'000	2016 RMB'000
Current tax		
Provision for PRC enterprise income tax *(note 26(a))*	**65,075**	48,911
Deferred tax		
Origination and reversal of temporary differences *(note 26(b))*	**(9,247)**	(15,627)
	55,828	33,284

(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rate:

	2017 RMB'000	2016 RMB'000
(Loss)/profit before taxation	**(301,180)**	118,950
Notional tax on (loss)/profit before taxation, calculated at tax rate of 25% *(note (i))*	**(75,295)**	29,738
Differential tax rates on subsidiaries' income *(note (ii))*	**(4,311)**	(3,436)
Tax effect of non-deductible expenses *(note (iii))*	**116,060**	586
Tax effect of unused tax losses not recognised	**1,659**	6,396
Reversal of previously recognised temporary differences *(note 26(b))*	**14,981**	–
Tax provision for prior years	**2,734**	–
Actual tax expense	**55,828**	33,284

Notes:

(i) The PRC enterprise income tax rate is adopted as the Group's operations are mainly conducted in the PRC. Pursuant to the prevailing income tax rules and regulations of the PRC, the PRC enterprise income tax is at a rate of 25%.

(ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits.

(iii) For the year ended 31 December 2017, it represents mainly non-deductible timing difference arising from the impairment losses amounting to RMB112,264,000 (2016: RMB nil).

6 INCOME TAX *(continued)*

(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rate: *(continued)*

Notes: (continued)

(iv) According to the PRC Enterprise Income Tax Law and its implementation rules, interests receivable by non-PRC-resident corporate investors from PRC-resident enterprises are subject to withholding income tax at a rate of 7%.

(v) According to the PRC Enterprise Income Tax Law and its implementation rules, dividends receivable by non-PRC-resident corporate investors from PRC-resident enterprises for profits earned since 1 January 2008 are subject to withholding income tax at a rate of 10%, unless reduced by tax treaties or arrangements. Undistributed profits earned prior to 1 January 2008 are exempted from such withholding tax.

7 DIRECTORS' REMUNERATION

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2017 Total RMB'000
Executive directors					
Mr. Li Yanjun *(chairman)*	–	1,246	–	–	1,246
Mr. Leung Hongying Li Ziwei *(vice chairman)*	–	815	–	16	831
Mr. Xia Guoan*	–	–	–	–	–
Mr. Li Jinsheng	–	615	–	7	622
Mr. Sun Jianhua	–	134	–	34	168
Mr. Huang Kai	–	318	–	–	318
Mr. Tu Quanping	–	562	–	7	569
Independent non-executive directors					
Mr. Ge Xinjian	104	–	–	–	104
Mr. Meng Likun	104	–	–	–	104
Mr. Kong Chi Mo	156	–	–	–	156
	364	3,690	–	64	4,118

7 DIRECTORS' REMUNERATION *(continued)*

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2016 Total RMB'000
Executive directors					
Mr. Li Yanjun *(chairman)*	–	1,284	–	–	1,284
Mr. Leung Hongying Li Ziwei *(vice chairman)*	–	857	–	15	872
Mr. Xia Guoan*	–	133	–	–	133
Mr. Li Jinsheng#	–	538	–	6	544
Mr. Sun Jianhua	–	188	–	28	216
Mr. Huang Kai	–	327	–	–	327
Mr. Tu Quanping	–	542	–	6	548
Independent non-executive directors					
Mr. Ge Xinjian	103	–	–	–	103
Mr. Meng Likun	103	–	–	–	103
Mr. Kong Chi Mo	154	–	–	–	154
	360	3,869	–	55	4,284

* Mr. Xia Guoan was resigned on 30 March 2016.

Mr. Li Jinsheng was appointed on 30 March 2016.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2016: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2016: two) individuals are as follows:

	2017 RMB'000	2016 RMB'000
Salaries and other emoluments	1,298	1,270
Retirement scheme contributions	14	13
	1,312	1,283

The emoluments of the two (2016: two) individuals with the highest emoluments are within the following bands:

	2017 Number of Individuals	2016 Number of Individuals
Nil to HKD1,000,000	2	2

9 OTHER COMPREHENSIVE INCOME

The component of other comprehensive income does not have any significant tax effect for the years presented.

10 (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity shareholders of the Company for the year ended 31 December 2017 of RMB357,008,000 (2016: profit of RMB85,666,000) and the weighted average number of shares in issue during the year ended 31 December 2017 of 1,571,586,000 shares (2016: 1,571,586,000 shares).

The Company did not have any potential dilutive shares for the years presented. Accordingly, diluted (loss)/earnings per share is the same as basic (loss)/earnings per share.

(Expressed in Renminbi unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings and plants RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Mine properties RMB'000	Total RMB'000
Cost:						
At 1 January 2016	371,955	306,752	30,956	4,837	369,316	1,083,816
Additions	–	362	515	27	–	904
Transferred from construction in progress *(note 12)*	131,825	46,988	–	860	–	179,673
At 31 December 2016	503,780	354,102	31,471	5,724	369,316	1,264,393
At 1 January 2017	**503,780**	**354,102**	**31,471**	**5,724**	**369,316**	**1,264,393**
Additions	**–**	**6,494**	**1,402**	**511**	**–**	**8,407**
Transferred from construction in progress *(note 12)*	**24,068**	**887**	**–**	**2,901**	**–**	**27,856**
Disposals	**–**	**(129)**	**(2,185)**	**(3)**	**–**	**(2,317)**
At 31 December 2017	**527,848**	**361,354**	**30,688**	**9,133**	**369,316**	**1,298,339**
Accumulated depreciation and impairment losses:						
At 1 January 2016	(102,374)	(124,666)	(20,637)	(4,192)	(107,489)	(359,358)
Charge for the year	(16,835)	(22,471)	(3,493)	(284)	(23,373)	(66,456)
At 31 December 2016	(119,209)	(147,137)	(24,130)	(4,476)	(130,862)	(425,814)
At 1 January 2017	**(119,209)**	**(147,137)**	**(24,130)**	**(4,476)**	**(130,862)**	**(425,814)**
Charge for the year	**(23,875)**	**(26,971)**	**(2,449)**	**(642)**	**(28,031)**	**(81,968)**
Written back on disposals	**–**	**107**	**2,156**	**2**	**–**	**2,265**
Impairment losses *(note 16)*	**(4,801)**	**(3,691)**	**(185)**	**(27)**	**(28,590)**	**(37,294)**
At 31 December 2017	**(147,885)**	**(177,692)**	**(24,608)**	**(5,143)**	**(187,483)**	**(542,811)**
Net carrying value						
At 31 December 2017	**379,963**	**183,662**	**6,080**	**3,990**	**181,833**	**755,528**
At 31 December 2016	384,571	206,965	7,341	1,248	238,454	838,579

11 PROPERTY, PLANT AND EQUIPMENT, NET *(continued)*

The Group's property, plant and equipment are substantially located in the PRC. As at 31 December 2017, the Group has not obtained title certificate of certain of its buildings and plants with an aggregate carrying amount of approximately RMB48,872,000 (31 December 2016: RMB52,248,000). The directors are of the opinion that the Group is entitled to lawfully and validly occupy or use of the above-mentioned properties.

As at 31 December 2017, mine properties include capitalised stripping activity asset with a carrying amount of RMB163,528,000 (31 December 2016: RMB213,992,000).

As at 31 December 2017, certain of the Group's borrowings were secured by the Group's property, plant and equipment (see note 24(c)) with a carrying amount of RMB46,484,000 (31 December 2016: RMB49,913,000).

12 CONSTRUCTION IN PROGRESS

	Stripping activity asset RMB'000	Other property and plant under construction/ installation RMB'000	Total RMB'000
At 1 January 2016	–	58,981	58,981
Additions	–	126,066	126,066
Transferred to property, plant and equipment *(note 11)*	–	(179,673)	(179,673)
At 31 December 2016	–	5,374	5,374
At 1 January 2017	**–**	**5,374**	**5,374**
Additions	**–**	**23,178**	**23,178**
Transferred to property, plant and equipment *(note 11)*	**–**	**(27,856)**	**(27,856)**
At 31 December 2017	**–**	**696**	**696**

13 LEASE PREPAYMENTS

	2017 RMB'000	2016 RMB'000
Cost:		
At 1 January	210,727	210,727
Additions	293	–
At 31 December	211,020	210,727
Accumulated amortisation:		
At 1 January	(83,692)	(67,721)
Charge for the year	(15,217)	(15,971)
At 31 December	(98,909)	(83,692)
Net carrying value:	112,111	127,035

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in the PRC, with original lease periods over 5 to 50 years. Up to the issue of these financial statements, the Group is still in the process of applying for the title certificates of certain of its leasehold land with a carrying amount of approximately RMB95,936,000 (31 December 2016: RMB110,198,000). The directors are of the opinion that the Group is entitled to lawfully and validly occupy or use of the above-mentioned leasehold land.

The analysis of net carrying value of leasehold land is as follows:

	2017 RMB'000	2016 RMB'000
In the PRC:		
– short leases	18,364	21,222
– medium-term leases	93,747	105,813
At 31 December	112,111	127,035

As at 31 December 2017, certain of the Group's borrowings were secured by the Group's land use rights (see note 24(c)) with a carrying amount of RMB10,942,000 (31 December 2016: RMB11,301,000).

(Expressed in Renminbi unless otherwise indicated)

14 INTANGIBLE ASSETS

	Mining rights RMB'000	Hospital management right RMB'000	Total RMB'000
Cost:			
At 1 January 2016	880,567	–	880,567
Addition through acquisition of business	–	187,000	187,000
At 31 December 2016	880,567	187,000	1,067,567
Addition through acquisition of business	–	–	–
At 31 December 2017	880,567	187,000	1,067,567
Accumulated amortisation:			
At 1 January 2016	(277,894)	–	(277,894)
Charge for the year	(32,798)	(3,117)	(35,915)
At 31 December 2016	(310,692)	(3,117)	(313,809)
At 1 January 2017	(310,692)	(3,117)	(313,809)
Charge for the year	(39,465)	(6,233)	(45,698)
Impairment losses (note (ii))	(338,351)	–	(338,351)
At 31 December 2017	(688,508)	(9,350)	(697,858)
Net carrying value:			
At 31 December 2017	192,059	177,650	369,709
At 31 December 2016	569,875	183,883	753,758

Notes:

(i) Intangible assets represent mining rights and the related premium paid in relation to obtaining the mining rights, and the hospital management right acquired in 2016.

(ii) During the year ended 31 December 2017, the impairment provision on mining rights of Laiyuan Xinxin Ming Co., Ltd. ("Xinxin Mining") and Laiyuan County Jiheng Mining Co., Ltd. ("Jiheng Mining") were RMB17,351,000 (see note 16(a)) and RMB321,000,000 (see note 16(c)), respectively.

14 INTANGIBLE ASSETS *(continued)*

(iii) In connection with the acquisition completed in July 2016, the Group obtained hospital management right through the related hospital management agreements. The management right was recognised at its fair value amounting to RMB187,000,000, and is amortised on a straight-line basis over 30 years as agreed in the hospital management agreements.

(iv) As at 31 December 2017, the Group's borrowings were secured by the mining right of Jiheng Mining (see note 24(c)) with a carrying amount of approximately RMB28,106,000 (31 December 2016: RMB57,065,000).

15 GOODWILL

	RMB'000
Cost:	
At 1 January 2016	–
Addition through acquisition of business	73,410
At 31 December 2016	73,410
At 31 December 2017	73,410
Accumulated impairment losses:	
At 1 January 2016, 31 December 2016 and 1 January 2017	–
Impairment losses *(note 16 (b))*	(73,410)
At 31 December 2017	(73,410)
Carrying amount:	
At 31 December 2016	73,410
At 31 December 2017	–

16 IMPAIRMENT LOSSES

(a) Property, plant and equipment

When any indication of impairment is identified, property, plant and equipment are reviewed for impairment based on CGU. The carrying values of the CGU was compared to the recoverable amount. The recoverable amount is the higher of the CGU's FVLCD and VIU. Given the nature of the Group's activities, information on the fair value of a CGU is usually difficult to obtain unless negotiations with potential purchasers or similar transactions are taking place. As such, the recoverable amount of CGU was determined based on VIU, which is the present value of the estimated future cash flows to be derived from the continuing use of the CGU and from its ultimate disposal. The cash flow was discounted using a discount rate that reflects current market assessment of the time value of money and the risks specific to the CGU.

As a result of continuing and weaker iron ore product price forecasts and consequent deferral of mine development plan in the second half of 2015, the Group identified indications of impairment in relation to Laiyuan County Jingyuancheng Mining Co., Ltd. ("Jingyuancheng Mining") and Xinxin Mining. Consequently, a formal estimate of the recoverable amounts of the related CGUs were performed. For the purpose of the impairment testing, each of Jingyuancheng Mining and Xinxin Mining is regarded as a CGU. For the year ended 31 December 2015, impairment losses totally RMB393,637,000 was recognised in respect of the Group's property, plant and equipment, construction in progress and intangible assets amounting to RMB184,384,000, RMB25,091,000 and RMB184,162,000, respectively.

Since then the directors have been closely monitoring the market situation and the indication of variance to those key assumptions used in the estimation of carrying amounts of related CGUs. During the year ended 31 December 2017, the directors carried out the review of the recoverable amounts of each CGU of which indications of impairment were identified.

During the year ended 31 December 2017, the Group anticipates a further deferral of production resumption of Xinxin Mining after taking into account the fact that it will continue to remain production halt. The directors carried out the review of the recoverable amount of this CGU and such review led to the recognition of an impairment loss of RMB54,645,000, which has been recognised in the profit or loss for the year ended 31 December 2017, of which RMB37,294,000 (note 11) was recognised in the property, plant and equipment and RMB17,351,000 was recognised in intangible assets (note 14), and this CGU has been reduced to its recoverable amount of RMB143,975,000.

The determination of VIU was most sensitive to iron ore concentrate prices, sales and production volumes and discount rate. The Group adopts a pre-tax rate of 13.9% (2016: 11.4%) that reflects specific risks related to the CGUs as discount rates. Other key assumptions for the VIU calculations reflect management's judgements and expectations regarding the past performance of the relevant assets, as well as future industry conditions and operations.

(b) Goodwill

The business of Xinan acquired in July 2016 is identified to be a CGU, to which the goodwill is allocated. During the year ended 31 December 2017, the directors carried out the review of the recoverable amount of this CGU due to the fact that the performance of the Group's hospital management business did not reach the original expectation. It is because the master plan for the Xiong'an New Area of where the operation is located is still under processing. The recoverable amount of this CGU is determined on the bases of the present value of future cash flow projection.

The future cash flow of financial budget covering an eight-year period (2016: six-year period) approved by the management. The projected period greater than five years is due to the operation of this CGU will not reach stable status until the year 2026. Cash flows beyond the eight-year period (2016: six-year period) are extrapolated using an estimated weighted average growth rate of 3%. The cash flows are discounted using a discount rate of 13.2% (2016: 15.0%). The discount rate used is after-tax and reflects specific risks relating to the business. The management considered that the forecast assumptions are appropriate.

16 IMPAIRMENT LOSSES *(continued)*

(b) Goodwill *(continued)*

Details of the key assumptions which are used for calculating VIU as at 31 December 2017 and 31 December 2016 are as follows:

(i) Number of patient and average income earned from each patient

Forecast number of patient and average income are based on management's estimates and are derived from Rongcheng Hospital's performance in prior year and long-term development plan building upon industry trends and external sources.

(ii) Gross margin on supply chain business

Average gross margin on sale of pharmaceutical products, medical devices and medical consumables is derived from publicly available market data of comparable peer companies, with appropriate adjustments made to reflect the risks and benefits specific to sale of traditional Chinese medicines and medical devices in remote counties.

(iii) Discount rate

In arriving at the VIU, an after-tax discount rate of 13.2% (2016: 15.0%) was applied to the estimated future cash flows of the CGU as at 31 December 2017. This discount rate is derived from the acquired business's weighted average cost of capital ("WACC", with appropriate adjustments made to reflect the risks specific to the CGU). The WACC takes into account both debt and equity, weighted based on the comparable peer companies' average capital structure. The cost of equity is derived from the expected return on investment by the Group's investors based on publicly available market data of comparable peer companies. The cost of debt is based on the borrowing cost of interest-bearing borrowings of the Group that reflects the credit rating of the Group.

Since the master plan for Xiong'an New Area of where the operation is located is still under processing, the performance of the Group's hospital management business did not reach the original expectation. Impairment losses of RMB73,410,000 was recognised for the year ended 31 December 2017, as the CGU has been reduced to its recoverable amount of RMB133,238,000 and any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

(c) Mining rights

In August and December 2014, the Group acquired two mining rights with an aggregate carrying amount of approximately RMB321,000,000 from two third parties. These two mining rights fall within the local government's resources integration plan. In accordance with the plan, the local government intends to grant one mining right certificate in replace of a few separate mining right certificates. As at 31 December 2017, the Group is still in process of negotiating with the local government to renew title certificates of these two mining rights as part of the planned consolidation works. Given the fact that the local government has carried out policies such as gradually closing down and ceasing new license of open-pit under scale recently, the directors considered indication of impairment exist and carried out the review of the recoverable amount of the above-mentioned mining rights.

Further to the impairment assessment made by the Company, an impairment loss of RMB321,000,000 has been recognised in the profit or loss for the year ended 31 December 2017 after taking into account the uncertainties associated with the consolidation works in the foreseeable future.

(Expressed in Renminbi unless otherwise indicated)

17 SUBSIDIARIES OF THE GROUP

The following list contains the particular of subsidiaries of the Group as at 31 December 2017. The class of shares held is ordinary unless otherwise stated.

Name of companies	Place of incorporation/ establishment and business	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Hengshi Development International Limited 恒實發展國際有限公司	Hong Kong	100 shares of HKD1.00 each	100%	100%	–	Investment holding
Beijing Panshi Industrial Co., Ltd. # 北京盤實實業有限公司	PRC	RMB150,000,000	100%	–	100%	Investment holding
Beijing Hengwen Industrial Co., Ltd. # 北京恒穩實業有限公司	PRC	RMB120,000,000	100%	–	100%	Investment holding
Laiyuan County Aowei Mining Investments Co., Ltd. # 淶源縣奧威礦業投資有限公司	PRC	RMB120,000,000	100%	–	100%	Investment holding
Laiyuan County Jingyuancheng Mining Co., Ltd.# 淶源縣京源城礦業有限公司	PRC	RMB160,000,000	100%	–	100%	Mining, processing and sale of iron ore products
Laiyuan Xinxin Mining Co., Ltd. # 淶源鑫鑫礦業有限公司	PRC	RMB50,000,000	100%	–	100%	Mining, processing and sale of iron ore products
Laiyuan County Jiheng Mining Co., Ltd. # 淶源縣冀恒礦業有限公司	PRC	RMB100,000,000	100%	–	100%	Mining, processing and sale of iron ore products
Xinan Investments Limited 熹南投資有限公司	BVI	1 share of USD1.00 each	100%	100%	–	Investment holding
Xinan Limited 熹南有限公司	Hong Kong	1 share of HKD1.00 each	100%	–	100%	Investment holding
Baoding Xinan Medical Management Consulting Co., Ltd. # 保定熹南醫療管理諮詢有限公司	PRC	RMB5,000,000	100%	–	100%	Hospital management

17 SUBSIDIARIES OF THE GROUP *(continued)*

Name of companies	Place of incorporation/ establishment and business	Particulars of issued and paid up capital	Proportion of ownership interest Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Baoding Aoxiang Property Services Co., Ltd. # 保定奧祥物業服務有限公司	PRC	RMB1,000,000	100%	–	100%	Property management
Baoding Xiang'an Pharmaceutical Sales Co., Ltd. # 保定翔安藥品銷售有限公司	PRC	RMB4,000,000	100%	–	100%	Supply chain business

The official names of the entities are in Chinese. The English names are for identification purpose only.

18 LONG-TERM RECEIVABLES

	2017 RMB'000	2016 RMB'000
Environmental reclamation deposits *(note (i))*	**44,760**	42,960
Receivables from Rongcheng Hospital *(note(ii))*	**11,000**	11,000
	55,760	53,960

Notes:

(i) Environmental reclamation deposits placed with government in respect of the Group's reclamation obligations for the closure of mines.

(ii) The balances represent a five-year loan to Rongcheng County Hospital maturing in year 2021, which is unsecured and interest-free.

All of the balances are not expected to be repaid/refunded within the next 12 months.

19 PREPAYMENTS

	2017 RMB'000	2016 RMB'000
Prepayments for construction work and equipment purchases	**547**	3,576
Prepayments for on-site loading service and transportation service *(note 21(d))*	**58,865**	–
	59,412	3,576

(Expressed in Renminbi unless otherwise indicated)

20 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2017 RMB'000	2016 RMB'000
Iron ores	**46,383**	22,949
Preliminary concentrates	**20,130**	40,687
Iron ore concentrates	**2,147**	9,339
Weakly mineralised wall rock#	**–**	11,861
	68,660	84,836
Consumables and supplies	**22,910**	21,311
	91,570	106,147

Weakly mineralised wall rock represents sub-graded mineral materials.

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2017 RMB'000	2016 RMB'000
Carrying amount of inventories sold	**588,522**	485,174

21 TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Accounts receivable	**89,599**	64,652
Bills receivable	**300**	4,000
	89,899	68,652
Less: allowance for doubtful debts	**286**	286
Trade receivables *(note (a))*	**89,613**	68,366
Other receivables *(note (d))*	**205,985**	55,322
	295,598	123,688

21 TRADE AND OTHER RECEIVABLES *(continued)*

(a) Ageing analysis

At the end of reporting period, the ageing analysis of trade receivables based on the invoice date (net of allowance for doubtful debts, if any) is as follows:

	2017 RMB'000	2016 RMB'000
Within 6 months	**71,336**	54,057
Over 6 months but less than 1 year	**–**	14,230
Over 1 year	**18,277**	79
	89,613	68,366

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 2(k)(i)).

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired *(note (i))*	**71,336**	68,287
Over 1 year past due *(note (ii))*	**18,277**	79
	89,613	68,366

Notes:

(i) Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

(ii) Receivables that were past due but not impaired relate to independent customers that have a good track record with the Group. As at 31 December 2017, trade receivables from Laiyuan County Xiongxin Mining Co., Ltd and Pingshan County Jingye Smelting Co., Ltd over 1 year past due but not impaired amounted to RMB17,264,000 and RMB934,000, respectively (31 December 2016: RMB nil and RMB nil, respectively). Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

21 TRADE AND OTHER RECEIVABLES *(continued)*

(d) Other receivables

	2017 RMB'000	2016 RMB'000
Prepayments and deposits#	**195,723**	49,532
Value added tax recoverable	**1,120**	1,152
Amounts due from related parties *(note 32(b))*	**15**	422
Others	**9,127**	4,216
	205,985	55,322

\# Prepayments and deposits mainly represent advance payments made to the Group's mining contractors. As at 31 December 2017, prepayments to Tangshan Hengsheng Blasting Engineering Co., Ltd. for blasting services, Laiyuan County Huiguang Logistics Co., Ltd. for on-site loading services and Laiyuan County Ao Tong Transportation Co., Ltd. for transportation services amounted to RMB10,378,000,RMB87,539,000 and RMB142,345,000, respectively (31 December 2016: RMB5,583,000, RMB17,065,000 and RMB14,697,000, respectively).

Based on agreements with the respective mining contractors, all of which are external third parties, the prepaid amounts are interest-free and the Group anticipates the amounts to be subsequently utilised along with the provision of related services .

As at 31 December 2017, other than deposits amounted to RMB2,685,000 (31 December 2016: RMB2,685,000), which are included in prepayments and deposits, all of the other receivables were aged within one year and were expected to be recovered or expensed off within one year.

22 RESTRICTED DEPOSITS

As at 31 December 2017, restricted deposits mainly represent bank deposits within one year, deposits pledged as guarantee for bills payable and other deposits amounting to RMB279,800,000, RMB60,000,000 and RMB3,036,000, respectively (31 December 2016: RMB257,018,000, RMB40,000,000 and RMB1,030,000).

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) The Group's cash and cash equivalents comprise:

	2017 RMB'000	2016 RMB'000
Cash on hand	147	117
Cash at banks	65,598	46,460
	65,745	46,577

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the group's consolidated cash flow statement as cash flows from financing activities.

	Borrowing *(note 24)* RMB'000	Accrued interest *(note 25)* RMB'000
At 1 January 2017	310,000	440
Changes from financing cash flows:		
Proceeds from new bank loans	360,000	–
Repayment of bank loans	(350,000)	–
Interest paid	–	(29,027)
Total changes from financing cash flows	10,000	(29,027)
Other changes:		
Interest expenses	–	29,143
At 31 December 2017	320,000	556

24 BORROWINGS

(a) The Group's short-term interest-bearing borrowings comprise:

	2017		2016	
	Interest rate per annum %	RMB'000	Interest rate per annum %	RMB'000
Renminbi denominated				
Short-term borrowings:				
– secured bank loans#	4.35~6.53	320,000	4.35~6.53	310,000
		320,000		310,000

As at 31 December 2017, the Group's bank loans of RMB200,000,000 and RMB120,000,000 were secured by the Group's mining right, land use rights, properties and equipment (see notes 11, 13, and 14) and by the land use rights and properties of a related party of the Group (see note 32(b)(iii)), respectively. As at 31 December 2016, the Group's bank loans were secured by the Group's mining right.

(b) The Group's borrowings were repayable as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	320,000	310,000

(c) The Group's banking facilities comprise:

	2017 RMB'000	2016 RMB'000
Secured by:		
Mining rights, land use rights and properties of the Group *(notes 11, 13 and 14)*	243,000	243,000
Land and properties of a related party *(note 32(b)(iii))*	160,000	160,000
	403,000	403,000

As at 31 December 2017, the above banking facilities of the Group were utilised to the extent of RMB380,000,000, including bank loan facilities of RMB320,000,000 and bank acceptance bill facilities of RMB60,000,000, respectively (31 December 2016: RMB350,000,000, including bank loan facilities of RMB310,000,000 and bank acceptance bill facilities of RMB40,000,000).

24 BORROWINGS *(continued)*

(c) The Group's banking facilities comprise: *(continued)*

The Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's financial statement ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As of the end of 2017, none of the covenants relating to drawn down facilities had been breached.

25 TRADE AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables	50,398	66,713
Bills payables	60,000	40,000
Other taxes payable	24,607	21,431
Receipts in advance	10,199	18,267
Payables for construction work, equipment purchase and others	7,792	8,263
Amounts due to related parties *(note 32(b))*	100	–
Interest payables	556	440
Others#	34,405	25,296
	188,057	180,410

Others mainly represent accrued expenses, payables for staff related costs and other deposits.

As at 31 December 2017, all trade payables are due and payable on presentation or within one year. All of the other payables were expected to be settled within one year or are repayable on demand.

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2017 RMB'000	2016 RMB'000
Income tax payable at 1 January	27,994	8,868
Provision for the year *(note 6(a))*	65,075	48,911
Income tax paid	(43,820)	(29,785)
Income tax payable at 31 December	49,249	27,994

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(b) Deferred tax assets and liabilities recognised

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Accrued expenses RMB'000	Impairment losses on non-current assets RMB'000	Long-term payables RMB'000	Safety production fund RMB'000	Depreciation and amortisation RMB'000	Accrued reclamation obligations RMB'000	Provision for doubtful debts RMB'000	Undistributed profits of subsidiaries in Mainland China RMB'000	Deferred tax liabilities arising from business combination RMB'000	Total RMB'000
At 1 January 2016	3,609	98,409	2,322	(278)	588	2,666	–	–	–	107,316
Addition through acquisition of business	–	–	–	–	–	–	–	–	(46,750)	(46,750)
Credited to profit or loss *(note 6(a))*	9,016	–	983	13	1,456	3,307	72	–	780	15,627
Charged to reserves	–	–	–	–	–	–	–	(4,120)	–	(4,120)
At 31 December 2016 and 1 January 2017	12,625	98,409	3,305	(265)	2,044	5,973	72	(4,120)	(45,970)	72,073
Credited/(expense) to profit or loss (note 6(a))	7,116	(14,981)	2,313	24	11,842	1,376	–	–	1,557	9,247
Charged to reserves	–	–	–	–	–	–	–	4,120	–	4,120
At 31 December 2017	19,741	83,428	5,618	(241)	13,886	7,349	72	–	(44,413)	85,440

(ii) Reconciliation to the consolidated statement of financial position

	2017 RMB'000	2016 RMB'000
Net deferred tax assets	**129,853**	122,163
Net deferred tax liabilities	**(44,413)**	(50,090)
	85,440	72,073

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(r), the Group has not recognised deferred tax assets in respect of tax losses and impairment losses on non-current assets amounted to RMB192,575,000 and RMB449,055,000, respectively, as at 31 December 2017 (31 December 2016: RMB200,983,000 and RMB nil, respectively) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Included in the total amount of tax losses are RMB106,655,000 (31 December 2016: RMB123,484,000) in relation to Group entities operated in the PRC, for which the tax losses can be carried forward for five years from the year incurred.

The year of expiry of tax losses not recognised is as follows:

	2017 RMB'000	2016 RMB'000
Year of expiry:		
2018	**978**	978
2019	**7,784**	7,784
2020	**74,266**	74,266
2021	**17,006**	17,006
2022	**6,621**	–
	106,655	100,034

(d) Deferred tax liabilities not recognised

As at 31 December 2017, temporary differences in relation to undistributed profits of subsidiaries in Mainland China since 1 January 2008 and up to the public listing of the Company's shares on the Stock Exchange amounted to RMB554,346,000 (31 December 2016: RMB554,346,000). Relevant deferred tax liabilities of RMB27,717,000 (31 December 2016: RMB27,717,000) have not been recognised at the end of the respective reporting periods in respect of the withholding income tax (see note 6(b)(iv)) that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

(Expressed in Renminbi unless otherwise indicated)

27 LONG-TERM PAYABLES

	2017 RMB'000	2016 RMB'000
Consideration payables for the acquisition of mining rights	240,335	243,208
Less: current portion of long-term payables	77,889	45,501
	162,446	197,707

In March 2012 and January 2013, the Group acquired the Gufen Mine, Wang'ergou Mine, Shuanmazhuang Mine and Zhijiazhuang Mine from Hebei Provincial Department of Land and Resources for considerations of RMB365,545,000 in aggregate and repayable by annual instalments with original payment periods over five to seven years.

In accordance with Ji Guo Tu Zi Han No. [2015]1011 issued on 11 November 2015, Hebei Provincial Department of Land and Resources approved a revised annual instalment schedule in relation to the remaining parts of the above mining right considerable payables and the payment periods were extended to 2022.

The Group's long-term payables were repayable as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	77,889	45,501
After 1 year but within 2 years	47,314	45,624
After 2 years but within 5 years	115,132	130,043
After 5 years	–	22,040
	240,335	243,208

28 ACCRUED RECLAMATION OBLIGATIONS

	2017 RMB'000	2016 RMB'000
At 1 January	57,326	55,485
Accretion expenses *(note 5(a))*	2,809	2,719
Utilised during the year	(559)	(878)
At 31 December	59,576	57,326
Less: current portion of accrued reclamation obligations	7,316	5,720
	52,260	51,606

28 ACCRUED RECLAMATION OBLIGATIONS *(continued)*

The accrual for reclamation costs has been determined based on management's best estimates. The estimate of the associated costs may be subject to change in the near term when the reclamation on the land from current mining activities becomes apparent in future periods. The Group's management believes that the accrued reclamation obligations at the end of the respective reporting periods are adequate and appropriate. The accrual is based on estimates and therefore, the ultimate liability may exceed or be less than such estimate.

29 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 *(note 29(c))*	Share premium RMB'000 *(note 29(d))*	Exchange reserve RMB'000 *(note 29(d))*	Other reserve RMB'000 *(note 29(d))*	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2016	120	928,309	(1,570)	150,576	(30,742)	1,046,693
Changes in equity for 2016:						
Total comprehensive income for the year	–	–	1,929	–	(4,054)	(2,125)
Shares issued for acquisition of business	11	214,331	–	–	–	214,342
Balance at 31 December 2016 and 1 January 2017	131	1,142,640	359	150,576	(34,796)	1,258,910
Change in equity for 2017:						
Total comprehensive income for the year	–	–	(1,845)	–	3,839	1,994
Balance at 31 December 2017	131	1,142,640	(1,486)	150,576	(30,957)	1,260,904

(b) Dividends

The board of directors of the Company does not recommend the payment of a final dividend in respect of the year ended 31 December 2017 (2016: nil).

29 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital

	2017		2016	
	Number of shares '000	RMB'000 (equivalent)	Number of shares '000	RMB'000 (equivalent)
Ordinary shares, issued and fully paid:				
At 1 January	1,635,330	131	1,507,843	120
Shares issued for acquisition of business	–	–	127,487	11
At 31 December	1,635,330	131	1,635,330	131

On 13 July 2016, 127,486,892 shares with par value of HKD0.0001 per share were issued and allotted to Jovial Link as the consideration for acquisition of business.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(d) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary courses of business.

(ii) Statutory surplus reserve

In accordance with the relevant PRC laws and regulations and the respective articles of association of the PRC subsidiaries, the PRC subsidiaries are required to appropriate 10% of their profit after taxation reported in their financial statements prepared in accordance with relevant accounting principles and financial regulations applicable to enterprises established in the PRC to the statutory surplus reserve. The appropriation to statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the registered capital of the relevant PRC subsidiaries.

The statutory surplus reserves can be utilised to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue. However, when converting the statutory surplus reserve of the PRC subsidiaries into capital, the balance of such reserve remaining unconverted must not be less than 25% of the registered capital of the relevant PRC subsidiaries.

29 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Nature and purpose of reserves *(continued)*

(iii) Specific reserve

Pursuant to the relevant PRC regulations, appropriation for safety production and other related expenditures are accrued by the Group at fixed rates based on production volume (the "safety production fund"). The Group is required to make a transfer for the appropriation of safety production fund from retained earnings to a specific reserve. The appropriation for safety production fund may cease if the balance of the specific reserve at the beginning of the year has reached 5% of the revenue of the relevant PRC subsidiaries in the previous year. The safety production fund could be utilised when expenses or capital expenditures on safety production measures are incurred. The amount of safety production fund utilised would be transferred from specific reserve back to retained earnings.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange adjustments arising from the translation of the HKD denominated financial statements to the Group's presentation currency. The reserve is dealt with in accordance with the accounting policy set out in note 2(w).

(v) Other reserve

The other reserve comprises the following:

- the difference between the net assets of subsidiaries acquired and the consideration paid by the Group in exchange;
- the changes in equity arisen from the acquisition of non-controlling interests; and
- the shareholder's loans waived by the ultimate controlling party.

(e) Distributability of reserves

Pursuant to the Cayman Companies Law, Chapter 22 (2012 Revision, as consolidated and reserved) of the Cayman Islands, share premium of the Company is also a distributable reserve to the shareholders. As at 31 December 2017, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB1,111,683,000 (31 December 2016: RMB1,107,844,000).

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Group defines the capital as total shareholders' equity plus loans and borrowings.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Group as at 31 December 2017 was 14.04% (31 December 2016: 11.92%).

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES MEASUREMENT

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to cash at banks and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

All of the Group's cash at banks are deposited in the reputable banks which management assessed the credit risk to be insignificant.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group generally delivers goods to its customers after receiving full payments in advance. Under certain circumstances, a credit period of up to 180 days is granted to customers that have a good track record with the Group and in good credit condition. The Group seeks to maintain tight control over those outstanding balances in order to manage credit risk. Management monitors the balances on a regular basis and takes appropriate actions against overdue balances, if any. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2017, 80.19% (31 December 2016: 57.51%) of trade receivables was due from the Group's five largest customers.

Further quantitative disclosures in respect of the group's exposure to credit risk arising from trade and other receivables are set out in note 21.

(b) Liquidity risk

The Group has to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES MEASUREMENT *(continued)*

(b) Liquidity risk *(continued)*

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2017 contractual undiscounted cash flow					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
Interest-bearing borrowings *(note 24)*	320,000	326,827	326,827	–	–	–
Trade and other payables *(note 25)*	188,057	188,057	188,057	–	–	–
Long-term payables *(note 27)*	240,335	272,859	80,567	52,768	139,524	–
Accrued reclamation obligations *(note 28)*	59,576	66,300	7,316	4,512	16,638	37,834
	807,968	854,043	602,767	57,280	156,162	37,834

	2016 contractual undiscounted cash flow					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
Interest-bearing borrowings *(note 24)*	310,000	320,184	320,184	–	–	–
Trade and other payables *(note 25)*	180,410	180,410	180,410	–	–	–
Long-term payables *(note 27)*	243,208	290,755	48,052	50,411	161,658	30,634
Accrued reclamation obligations *(note 28)*	57,326	58,950	6,000	7,316	14,806	30,828
	790,944	850,299	554,646	57,727	176,464	61,462

(c) Interest rate risk

The Group's interest rate risk arises primarily from its short-term and long-term borrowings carrying interests at fixed rates exposed the Group to fair value interest rate risk. The Group manages its exposure to interest rate risk by maintaining high proportion of fixed rate borrowings. Details of the interest rates are disclosed in note 24.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES MEASUREMENT *(continued)*

(d) Currency risk

The Group is exposed to currency risk primarily through financing activities which give rise to cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The Group's principal business is located in the PRC and the principal operation and transactions are carried out in RMB. Substantially all of the Group's assets and liabilities are denominated in RMB. Since RMB is not freely convertible, there is a risk that Chinese government may take actions to affect the exchange rate exposure, which may affect the net assets, earnings and any dividends it declares if such dividends are translated into foreign currency. The Group had no hedging in respect of the exchange rate risk and have not entered into any derivative instruments to manage foreign exchange fluctuations. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of the exposure are shown in RMB, translated using the spot rate at the end of the reporting period.

	2017		2016	
	USD'000	**RMB'000**	USD'000	RMB'000
Cash and cash equivalents	**48**	**1,121**	580	1,110

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remain constant.

	2017			2016		
	Increase/ (decrease) exchange rates %	**Effect on profit after tax and retained profits RMB'000**	**Effect on other components of equity RMB'000**	Increase/ (decrease) exchange rates %	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
United States dollars	**5**	**2**	**–**	5	29	–
	(5)	**(2)**	**–**	(5)	(29)	–
Renminbi	**5**	**56**	**(56)**	5	56	(56)
	(5)	**(56)**	**56**	(5)	(56)	56

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES MEASUREMENT *(continued)*

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1: valuation is based on unadjusted quoted prices in active markets for identical financial assets and liabilities.
- Level 2: valuation is based on inputs (other than quoted prices included within Level 1) that are observable for the financial asset or liability, either directly or indirectly.
- Level 3: valuations is based on unobservable inputs.

	2017 RMB'000	2016 RMB'000
Level 3		
– unlisted available-for-sale debt securities	–	48,000

During the year ended 31 December 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2016: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair values of available-for-sale debt securities are determined using the discounted cash flow analysis. The significant unobservable input in the fair value measurement is the discount rate. As the maturities of the Group's available-for-sale debt securities are less than 12 months, the directors are of the opinion that the impact of discounting would be insignificant. Any increase/decrease in the discount rate at 31 December 2017 would not have significant impact on the Group's other comprehensive income.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES MEASUREMENT *(continued)*

(e) Fair value measurement *(continued)*

(ii) Fair value of financial assets and liabilities carried at other than fair value

Apart from the available-for-sale securities measured at fair value, all of the Group's other financial assets and liabilities are initially recognised at the fair value of consideration paid or received and subsequently carried at amortised costs, as appropriate.

The financial assets and liabilities are presented by class in the tables below at their carrying amounts, which generally approximate to fair values except for long-term receivables and borrowings as indicated below.

	2017			2016		
	Loans and receivables RMB'000	Other financial assets and liabilities at amortised costs RMB'000	Total RMB'000	Loans and receivables RMB'000	Other financial assets and liabilities at amortised costs RMB'000	Total RMB'000
Cash and cash equivalents *(note (a))*	65,745	–	65,745	46,577	–	46,577
Restricted deposits *(note (a))*	342,836	–	342,836	298,048	–	298,048
Trade and other receivables *(note (b))*	295,598	–	295,598	123,688	–	123,688
Long-term receivables *(note (a))*	55,760	–	55,760	53,960	–	53,960
Trade and other payables *(note (b))*	–	(188,057)	(188,057)	–	(180,410)	(180,410)
Borrowings *(note (a))*	–	(320,000)	(320,000)	–	(310,000)	(310,000)
Total financial assets/(liabilities) carried at amortised costs	759,939	(508,057)	251,882	522,273	(490,410)	31,863
Total financial assets carried at fair value	–	–	–	48,000	–	48,000
Non-financial assets/(liabilities)	1,518,879	(393,573)	1,125,306	2,030,042	(378,618)	1,651,424
Total assets/(liabilities)	2,278,818	(901,630)	1,377,188	2,600,315	(869,028)	1,731,287

Notes:

(a) The fair values of the Group's cash and cash equivalents, restricted deposits, long-term receivables and borrowings approximate their carrying amounts as a result of their short maturity or because they carry floating rates of interest.

(b) The carrying amounts of trade and other receivables and trade and other payables are a reasonable approximation of their fair values.

31 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments outstanding at 31 December 2017 not provided for in the financial statements were as follows:

	2017 RMB'000	2016 RMB'000
Contracted for		
– property, plant and equipment	–	3,982

(b) At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	4,793	4,463
After 1 year but within 5 years	4,408	9,008
	9,201	13,471

The Group leases certain buildings through operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the agreements contain escalation provisions that may require higher future rental payments.

(c) Environmental contingencies

To date, the Group has not incurred any significant expenditure for environment remediation and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. Laws and regulations protecting the environment have generally become more stringent in recent years and could become more stringent in the future. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include:

(i) the exact nature and extent of the contamination at the mines and processing plants;

(ii) the extent of required clean-up efforts;

(iii) varying costs of alternative remediation strategies;

(iv) changes in environmental remediation requirements; and

(v) the identification of new remediation sites.

31 COMMITMENTS AND CONTINGENCIES *(continued)*

(c) Environmental contingencies *(continued)*

The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed for future environmental legislation cannot be reasonably estimated at present and could be material.

(d) Governmental and regulatory levies

The Group is subject to certain levies (mineral resources compensation, water and soil loss compensation and pollutant discharge fee, etc.) imposed by relevant government authorities in accordance with relevant PRC laws and regulations. Under such laws and regulations, the Group has fully fulfilled their responsibilities in paying the respective levies during the years presented. The directors are of the opinion that the Group had no other material obligations or liabilities of such levies at the end of the reporting period.

32 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Group's directors.

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2017 RMB'000	2016 RMB'000
Basic salaries, allowances and benefits in kind	**6,472**	6,711
Discretionary bonus	**–**	–
Retirement scheme contributions	**84**	79
	6,556	6,790

Total remuneration is included in "staff costs" (see note 5(b)).

32 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Other related party transactions

During the years presented, the Group entered into transactions with the following related parties.

Name of party	Relationship
Mr. Li Yanjun	The ultimate controller
Hebei Aowei Industrial Group Co., Ltd.	A company ultimately owned by Mr. Li Yanjun
Aowei International Development Limited	A company ultimately owned by Mr. Li Yanjun and Mr. Leung Hongying Li Ziwei
Hengshi Holdings Limited	A company ultimately owned by Mr. Li Yanjun and Mr. Leung Hongying Li Ziwei
Hengshi International Investments Limited	A company ultimately owned by Mr. Li Yanjun and Mr. Leung Hongying Li Ziwei
Beijing Tong Da Guang Yue Trading Co., Ltd.	A company jointly owned by Mr. Li Yanjun

Particulars of significant transactions between the Group and the above related parties during the years presented are as follows:

	2017 RMB'000	2016 RMB'000
Property leasing charges *(note (i))*	**4,270**	1,950
Advances received from a related party *(note (ii))*	**250**	–
Advances paid to related parties *(note (ii))*	**633**	1,386

The outstanding balances arising from the above transactions at the end of the reporting period are as follows:

	2017 RMB'000	2016 RMB'000
Amounts due to related parties *(note (i))*	**100**	–
Amounts due from related parties *(note (ii))*	**15**	422

Notes:

(i) Property leasing charges represent office rental paid and payable to Hebei Aowei Industrial Group Co., Ltd..

(ii) Advances from a related party represent payments made by Mr. Leung Hongying Liziwei on behalf of the Group. Advances to related parties represent payments made on behalf of Hengshi Holdings Limited, Aowei International Development Limited, Hengshi International Investments Limited and Mr. Li Yanjun. The amounts are unsecured, interest-free and have no fixed terms of repayment.

(iii) On 15 December 2015, the Group entered into a bank facility agreement with the aggregate amount of RMB160.0 million, including bank loan facilities of RMB110.0 million and bank acceptance bill facilities of RMB50.0 million, respectively. The bank facility agreement has a term of 12 months from the date of drawdown and is guaranteed by Laiyuan County Aowei Mining Investments Co., Ltd., Laiyuan County Jingyuancheng Mining Co., Ltd. and Laiyuan Xinxin Mining Co., Ltd., as well as the lands and properties of Beijing Tong Da Guang Yue Trading Co., Ltd. (a company jointly owned by Mr. Li Yanjun).

32 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Other related party transactions *(continued)*

The directors of the Company are of the opinion that the above transactions between the Group and the related parties were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

(c) Commitments with related parties

Pursuant to the property leasing agreement entered into by the Company and Hebei Aowei Industrial Group Co., Ltd., the Company rents properties from Hebei Aowei Industrial Group Co., Ltd. as office premises for the years ended 31 December 2017, 2018 and 2019.

As at the end of the respective reporting periods, the estimated total future minimum lease payments to Hebei Aowei Industrial Group Co., Ltd. under non-cancellable operating leases were payable as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	**4,270**	4,270
After 1 year but within 5 years	**4,270**	8,540
	8,540	12,810

(d) Applicability of the Listing Rules relating to connected transactions

Certain related party transactions in respect of notes 32(b) and (c) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section "Connected Transactions and Continuing Connected Transactions" of the Report of the Directors.

33 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

Approved and authorised for issue by the board of directors on 27 March 2017.

	31 December 2017 RMB'000	31 December 2016 RMB'000
Non-current asset		
Investment in a subsidiary	369,419	369,419
Total non-current asset	369,419	369,419
Current assets		
Other receivables	878,594	874,071
Cash and cash equivalents	13,817	16,355
Total current assets	892,411	890,426
Current liability		
Other payables	926	935
Total current liability	926	935
Net current assets	891,485	889,491
Total assets less current liability	1,260,904	1,258,910
NET ASSETS	1,260,904	1,258,910
CAPITAL AND RESERVES		
Share capital *(note 29(c))*	131	131
Reserves *(note 29(a))*	1,260,773	1,258,779
TOTAL EQUITY	1,260,904	1,258,910

Li Yanjun
Chairman and Executive Director

Leung Hongying Li Ziwei
Vice Chairman and Executive Director

(Expressed in Renminbi unless otherwise indicated)

34 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 December 2017, the directors considered the immediate parent and ultimate controlling party of the Group to be Hengshi International Investments Limited and Mr. Li Yanjun and Mr. Leung Hongying Li Ziwei, respectively. Hengshi International Investments Limited does not produce financial statements available for public use.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to IFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
IFRIC 22, *Foreign currency transactions and advance consideration*	1 January 2018
IFRS 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over income tax treatments*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 9 and IFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(continued)*

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, Financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are: (1) classification and measurement; (2) impairment; and (3) hedge accounting. Based on the preliminary assessment completed to date, the Group considers that the new requirements will have any significant impact on the Group on adoption of IFRS 9.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the Group has not identified significant impacts in relation to the following areas:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 2(v). Currently, revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(continued)*

IFRS 15, Revenue from contracts with customers *(continued)*

(a) Timing of revenue recognition *(continued)*

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from service income and sales of iron ore products.

(b) Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers. Currently, the Group does not apply such a policy when payments are received in advance.

(c) Sales with a right of return

Currently according to Group's arrangement with its customers, there are no sales return terms which allow the customers to return the Group's products. Therefore the Group assessed that this new requirement will not have any significant impact on the Group upon adoption of IFRS 15.

IFRS 16, Leases

As disclosed in note 2(j), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into leases as the lessee.

Once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.